



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *The University of Montana*

*For the Fiscal Year Ended  
June 30, 2010*

JANUARY 2011

LEGISLATIVE AUDIT  
DIVISION

09-10B

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Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

January 2011

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on The University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2010. The statements include comparative information for the fiscal year ended June 30, 2009. The statements include component unit financial information as required under Governmental Accounting Standards Board Statement No. 39.

This report does not contain any recommendations to the university. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

We thank President Engstrom and university staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Huthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

### The University of Montana

For the Fiscal Year Ended June 30, 2010

JANUARY 2011

09-10B

REPORT SUMMARY

The University of Montana (university) is comprised of The University of Montana – Missoula in Missoula, which includes the Montana Forest and Conservation Experiment Station; The University of Montana – Western in Dillon; The University of Montana – Helena College of Technology in Helena; and Montana Tech of The University of Montana in Butte, which includes the Montana Bureau of Mines and Geology. The four campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges and provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

#### Context

This annual financial audit was performed to provide timely audited financial statements to interested parties. Financial audits determine whether the university's financial statements are fairly presented, and the university complied with laws and regulations that have a direct and material impact on its financial presentation.

This audit report includes student FTE enrollment and employee FTE information from fiscal year 2004-05 through fiscal year 2009-10. During fiscal year 2009-10, student FTE enrollment totaled 18,099, of which 14,090 were Montana students and 13,181 were undergraduate students. Total student FTE enrollment increased by 1,169, or 6.9 percent, in fiscal year 2009-10. Total employee FTE increased by 82, or 2.3 percent, to 3,643 in fiscal year 2009-10.

Tuition and fee revenue increased \$10.0 million, to \$117.5 million, in fiscal year 2009-10, due primarily to enrollment growth. State appropriations increased \$3.1 million, to \$83.1 million, in fiscal year 2009-10. The source of those state appropriations changed due to the allocation of \$17.4 million from the federal American Recovery and Reinvestment Act of 2009 to the university. Revenue from federal financial aid grants and contracts increased \$8.7 million, to \$27.2 million, and revenue from capital grants and gifts decreased \$12.1 million, to \$21.3 million, in fiscal year 2009-10.

Operating expenses increased \$19.4 million during fiscal year 2009-10. Nearly half of this increase (\$9.2 million) was in compensation and employee benefits.

Scholarships and fellowships expenses increased \$5.3 million during fiscal year 2009-10.

The university's total net assets increased \$22.5 million during fiscal year 2009-10, to \$255.4 million at June 30, 2010, primarily due to increases in capital assets (\$18.4 million) and investment values (\$8.0 million) and decreases in long-term obligations (\$5.8 million). These increases in net assets were offset by an \$8.9 million increase in the liability for other post-employment benefits.

The financial statements in this report also contain information regarding the university's component units. These component units had net assets of \$160.5 million at June 30, 2010.

#### Results

Report readers can rely on financial information included in our audit report as a basis for financial decisions. The audit report does not contain any recommendations.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	



# Chapter I – Introduction

## **Audit and Objectives**

We performed a financial audit of The University of Montana (university) for the two fiscal years ended June 30, 2010. The objective of the audit was to determine whether the university's financial statements present fairly its financial position at June 30, 2010, and 2009, and the changes in financial position and cash flows for the years then ended. This objective included:

1. Determining the university's compliance with laws and regulations that have a direct and material effect on the financial statements.
2. Obtaining an understanding of the university's control systems to the extent necessary to support the audit of the financial statements, and if appropriate, make recommendations for improvement in management and internal controls.

We perform annual financial audits of the university to provide timely audited financial statements to interested parties. To complete the financial-compliance audit package required in statute, we also issue a financial-related audit every other year that determines the university's compliance with selected state and federal laws and regulations for the prior two-year period. Any audit issues identified during this audit have been discussed with university management. Issues requiring further follow-up were referred to the next financial-related audit, which will cover the two fiscal years ending June 30, 2011.

## **Background**

The University of Montana consists of four campuses:

- ♦ The University of Montana-Missoula is located in Missoula. The Montana Forest and Conservation Experiment Station is associated with this campus.
- ♦ Montana Tech of The University of Montana is located in Butte and includes the Montana Bureau of Mines and Geology.
- ♦ The University of Montana-Western is located in Dillon.
- ♦ The University of Montana-Helena College of Technology is located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula was established in 1893 in Missoula as a comprehensive university. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and

significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include Business Administration, Education and Human Science, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Continuing Education, Honors, Graduate, and Journalism. In addition, the campus includes a two-year college of technology, which provides a broad range of technical and occupational education and training courses. College of technology students receive either a certificate of completion or a two-year degree upon completion of a program.

Montana Tech of The University of Montana was established in 1893 in Butte as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes a college of technology, which provides core education courses and two-year degrees in various occupational and technical programs.

The University of Montana-Western was established in 1893 in Dillon as the state's Normal School for teacher education. It now provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

The University of Montana-Helena College of Technology was established in 1939 in Helena as a Vocational-Technical School. It is a two-year institution of higher education. It offers an Associate of Science or Arts Degree in general transfer for students who want to acquire a core of coursework transferable to university system baccalaureate programs throughout the state. It also offers a variety of occupational, technical, and training specialties. This includes accounting, construction, computer, electronics and welding technologies, and practical nursing. Students enrolled in these programs receive either a certificate of completion or a two-year degree.

# **Independent Auditor's Report and University Financial Statements**



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2010, and 2009, and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statements of Cash Flows for each of the fiscal years then ended and the University Component Units – Combined Statements of Financial Position as of June 30, 2010, and 2009, and the related University Component Units – Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include The University of Montana Foundation, the Montana Tech Foundation, The University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts for the component units of the university, as noted above, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of The University of Montana as of June 30, 2010, and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-14 and the Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance on page A-50 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of The University of Montana. The Supplemental Information – All Campuses on page A-51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

December 15, 2010



## **THE UNIVERSITY OF MONTANA**

**THE UNIVERSITY OF MONTANA - MISSOULA**

**THE UNIVERSITY OF MONTANA - WESTERN**

**THE UNIVERSITY OF MONTANA - HELENA COLLEGE OF TECHNOLOGY**

**MONTANA TECH OF THE UNIVERSITY OF MONTANA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FISCAL YEAR ENDED JUNE 30, 2010 OVERVIEW**

The University of Montana (University) is comprised of four campuses: The University of Montana - Missoula; The University of Montana - Western; The University of Montana - Helena College of Technology; and Montana Tech of The University of Montana. This discussion addresses the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2010, 2009, and 2008 and should be read in conjunction with the fiscal year 2010 financial statements.

#### **FINANCIAL HIGHLIGHTS**

##### **The financial highlights for fiscal year 2010 were:**

- The appropriation by the 2009 session of the Montana Legislature to the Montana University System for the 2010-2011 biennium included, \$17.6 million in federal stimulus funding and approximately, \$59 million of education stabilization funding through the American Reinvestment and Recovery Act (ARRA) of 2009. The University of Montana was allocated \$17.4 million of these funds in FY10, which was comprised of \$2.9 million for tuition mitigation and increase access to distance learning; \$14.6 million of education stabilization funding. The University was also awarded over \$5.0 million of federal grants and contracts that were funded through ARRA. The University established additional accounting and monitoring processes and procedures to ensure compliance with regulations and reporting requirements established by the federal government for federal stimulus and recovery funds received.
- The fair value of investments increased approximately \$2.4 million in FY10, however, investment earnings on cash equivalents and investments decreased by more than \$800 thousand over FY09, due to very low yields on interest bearing investments and the slow recovery from the economic recession. The decline was despite the increase in average investments, primarily in government agency securities, of approximately \$5.0 million during the fiscal year.
- Enrollment of full time equivalent students to the University increased by 1,169 students in FY10 over the full time equivalents reported for FY09. The increase in enrollment, and a 3.0% and an 8.0% increase in tuition and mandatory fees for in-state and out-of-state students, respectively, helped to increase tuition and fee revenue by over \$10 million.
- The University terminated its swaption agreement with Wachovia Bank, NA ("counterparty") in FY10 due to unfavorable projected interest rates, recognizing a net loss in the FY10 financial statements.

- The University of Montana Foundation (UM Foundation) reported an investment return of 14% on its investments for FY10, which is a significant improvement over the negative 18.1% return reported in the prior fiscal year. While investment returns for the year improved, a large portion of the Foundation's endowments continue to remain below the original gift value. Actions by the University and the UM Foundation have served to mitigate the impact of this situation.
- Long term obligations and advances from primary government decreased by \$6.7 million. The University issued just over \$2.0 million of new long-term debt.

**The financial highlights for fiscal year 2009 were:**

- In accordance with the College Affordability Plan (CAP), announced by the Governor in September of 2006, and approved by the 2007 Session of the Montana Legislature, tuition was held at levels in effect for 2007 for all the Campuses of The University of Montana for Montana resident students.
- The University's investment earnings decreased by over \$3.7 million compared to the prior year, largely due to the continued affect of the subprime mortgage crisis on financial markets. Cash flows from investment earnings have in fact declined over \$3.4 million since FY2007. In FY09, the decline in investment earnings can be primarily attributed to the following factors: 1) The fair value of investments decreased by \$3.6 million, and 2) the average yield on money market investments declined substantially and was less than 2.0% for FY09.
- Net assets of the University increased by \$27.7 million primarily from a \$38.4 million increase in investment in capital assets, which included capital grants and gifts of \$33.3 million. Other notable changes to net assets that offset the increase in capital assets included: (1) a decline in the fair value of endowment investments of over \$3.6 million (2) unrestricted net assets decreased by approximately \$7.2 million due in large part to an increase in the unfunded liability for other post employment benefits.
- Long term obligations and advances from primary government decreased by \$6.1 million. The University issued just over \$800 thousand of new long-term debt.
- The University of Montana Foundation (UM Foundation) reported an investment return of a negative 18.1% on its investments for FY09. Its long term investment portfolio, which includes endowed funds managed on behalf of the University, reported a negative return of 19.7%. The magnitude of the investment loss pushed the value of a material portion of the UM Foundation-held endowments below the original gift value, which caused a cessation of spending from these endowments. Despite this significant challenge, actions by the University and the UM Foundation served to mitigate the impact of this situation. In fact, scholarship and academic support to the University were at record levels.

**USING THE FINANCIAL STATEMENTS**

The University's financial statements consist of the following three statements: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated financial statements representing the University's four campuses.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred.

- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.
- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Assets in order of liquidity.
- Revenues and expenses are classified as operating or non-operating. “Operating” is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while “non-operating” is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Assets reflects a substantial operating loss primarily because GASB requires that General Operating Fund expenses be reported as operating, while the State Appropriation - which is General Operating Fund revenue - must be reported as non-operating.
- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student’s account. The reason for “netting” these is to keep the University financial statements from “double counting” this revenue and expense.

## STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the financial position of the University at the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University’s financial position. A summary of the Statement of Net Assets follows:

	<b>For the years ended June 30, (stated in millions)</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b><u>Description</u></b>			
Total current assets	\$ 78.20	\$ 78.06	\$ 79.78
Total non-current assets	414.41	388.91	349.31
<b>Total assets</b>	<b>\$492.61</b>	<b>\$466.97</b>	<b>\$429.09</b>
Total current liabilities	\$ 58.67	\$ 58.77	\$ 51.80
Total non-current liabilities	178.55	175.29	172.10
<b>Total liabilities</b>	<b>\$ 237.22</b>	<b>\$ 234.06</b>	<b>\$ 223.90</b>
Invested in Capital Assets, Net of Related Debt Restricted:	214.31	192.23	153.83
Nonexpendable	17.93	15.87	19.29
Expendable	6.16	6.05	6.12
Unrestricted	16.99	18.76	25.95
<b>Total net assets</b>	<b>255.39</b>	<b>232.91</b>	<b>205.19</b>
<b>Total liabilities and net assets</b>	<b>\$ 492.61</b>	<b>\$ 466.97</b>	<b>\$ 429.09</b>

Events or developments that occurred, which had a significant impact on the Statement of Net Assets included:

### **Events or developments which occurred during 2010**

- Non-Current assets increased by \$25.5 million due largely to net additions to capital assets of \$35.0 million, which were offset by an increase to accumulated depreciation of \$16.6 million. The purchase of \$4.5 million of long term investments, plus, a \$2.5 million increase in fair market value of long term investments accounts for much of the remaining \$7.1 million increase in non current assets.
- Non-Current liabilities increased by \$3.3 million dollars due largely to an increase in the liability for other post employment benefits (OPEB) of \$8.9 million, which is the annual amortization amount of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by a net decline in long-term debt of \$4.4 million, which includes new borrowings of \$2.3 million.
- Net assets of the University increased by over \$22.5 million. Significant items affecting the change in net assets include: investment in capital assets, net of related debt increased by \$22.1 million largely from capital projects that were funded from the state's Long Range Building Program or from private sources; the change in restricted non-expendable net assets is primarily from the \$2.1 million increase in fair market value of non-expendable endowments; and, the unfunded OPEB liability increased by \$8.9 million in FY10 contributing to the overall decline in unrestricted net assets of \$1.8 million.

### **Events or developments which occurred during 2009:**

- Non-Current assets increased by over \$39.6 million due largely to net additions to capital assets of \$35.8 million, which includes an increase to accumulated depreciation of \$19.2 million. The purchase of \$5.5 million of long term investments net of a \$3.7 million decline in fair market value accounts for much of the remaining \$2.1 million increase in non current assets.
- Current liabilities increased by nearly \$7 million due primarily to increases in accounts payable and accrued liabilities, securities lending liability, and deferred revenue, of \$3.1 million, \$1.9 million, and \$1.2 million, respectively.
- Non-Current liabilities increased by almost \$3.2 million dollars due largely to recording an increase in the liability for other post employment benefits (OPEB) of \$7.7 million as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by decline in long-term debt of \$6.0 million net of new borrowings of \$803 thousand.
- Net assets of the University increased by over \$27.7 million. Significant items affecting the change net assets include: investment in capital assets, net of related debt increased by \$38.4 million; the value of non-expendable endowments decreased by \$3.4 million; and, the unfunded OPEB liability increased by \$7.7 million in FY09.

### **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses, and Changes in Net Assets present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. Consistent with the accrual method of accounting, the current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

<u>Description</u>	<u>For the years ended June 30,</u> <u>(stated in millions)</u>		
	<u>2010</u>	<u>2009</u>	<u>2008*</u>
Operating revenues	\$ 258.93	\$ 246.56	\$ 234.85
Operating expenses	374.74	355.36	335.25
Operating loss	(115.81)	(108.80)	(100.40)
Non-operating revenues (expenses)	116.81	103.06	100.15
Income (loss) before other revenues	1.00	(5.74)	(0.25)
Other revenues	21.47	33.46	11.04
Net increase in net assets	22.47	27.72	10.79
Net assets, beginning of year, as adjusted	232.91	205.19	194.40
Net assets, end of year	\$ 255.38	\$ 232.91	\$ 205.19

**\*Restated**

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2010, 2009, and 2008:

	<u>For the years ended June 30,</u> <u>(stated in millions)</u>					
	<u>2010</u>		<u>2009</u>		<u>2008*</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>REVENUES</b>						
Tuition and fees, net	\$ 117.54	29.07%	\$ 107.52	27.54%	\$ 104.32	29.51%
Federal grants and contracts	56.12	13.88%	54.11	13.86%	49.91	14.12%
State & local grants/contracts	10.70	2.65%	11.17	2.86%	9.73	2.75%
Nongovernmental grants/contracts	8.17	2.02%	8.04	2.06%	8.46	2.39%
Facilities and administrative cost allowances	9.83	2.43%	9.35	2.39%	8.76	2.48%
Sales/services of educational departments	14.98	3.71%	15.56	3.99%	13.82	3.91%
Auxiliary enterprise charges	36.57	9.05%	36.59	9.37%	36.24	10.25%
State appropriations	83.11	20.56%	79.97	20.48%	73.53	20.80%
Federal financial aid grants and contracts	27.25	6.74%	18.51	4.74%	16.23	4.59%
Investment income (loss)	0.90	0.22%	(1.00)	-0.26%	2.69	0.76%
Private gifts	11.33	2.80%	11.32	2.90%	13.50	3.82%
Capital grants and gifts	21.26	5.26%	33.32	8.53%	10.82	3.06%
All other sources combined	6.51	1.61%	5.94	1.52%	5.44	1.54%
<b>Total revenues</b>	<b>\$ 404.27</b>	<b>100.00%</b>	<b>\$ 390.40</b>	<b>100.00%</b>	<b>\$ 353.45</b>	<b>100.00%</b>
<b>EXPENSES</b>						
Compensation and benefits	\$ 234.77	61.49%	\$ 225.54	62.19%	\$ 212.76	62.09%
Other postemployment benefits	8.93	2.34%	7.66	2.11%	7.35	2.14%
Other operating expenses	84.75	22.20%	82.59	22.77%	80.55	23.51%
Scholarships and fellowships	25.72	6.74%	20.40	5.62%	17.77	5.19%
Depreciation and amortization	20.57	5.39%	19.18	5.29%	16.81	4.91%
Interest expense	7.06	1.85%	7.31	2.02%	7.42	2.17%
<b>Total expenses</b>	<b>\$ 381.80</b>	<b>100.00%</b>	<b>\$ 362.68</b>	<b>100.00%</b>	<b>\$ 342.66</b>	<b>100.00%</b>

**\* Restated**

Comments about specific revenue and expense items are:

**Events or developments which occurred during 2010 include:**

- Tuition and fees increased over \$10 million, with about 61% of the growth in revenue from higher enrollments and the remaining 39% increase in revenues from fees associated with higher tuition rates for in-state and out-of-state students.
- The \$8.7 million increase in federal financial aid grants and contracts is due primarily to a \$619 increase in the maximum value of a Federal Pell Grant, which was legislated as part of the American Recovery and Reinvestment Act of 2009 (ARRA).
- Investment income reported for FY10 was close to \$1 million, or an increase of almost \$2 million over the investment loss reported in FY10. Investment earnings for FY10 were comprised of \$1.9 million of income on investments and a \$2.5 million increase in the fair value of investments, which was offset by a realized loss of \$3.3 million on the termination of a swaption agreement (see note 11 for more information).
- Capital grants and gifts declined by \$12.1 million over the prior year, or by approximately 36%, due largely to the completion or near completion of major capital projects undertaken in the past several years.

Capital grants and gifts amounted to \$21,257,412 during the year and were as follows:

<b>Project</b>	<b>Amount</b>	<b>Campus</b>
Phyllis J. Washington Education Center	1,078,000	Missoula
Law School Expansion	1,105,000	Missoula
Native American Studies Center	582,000	Missoula
Energy improvements	572,000	Missoula
Upgrade Steam Distribution System	876,000	Missoula
Washington Stadium expansion	680,000	Missoula
Equipment and art work gifts-in-kind	694,000	Missoula
Roof repair and replacement	1,424,000	Missoula
HVAC Projects	1,290,000	Missoula & Dillon
Natural Resources Building	6,616,000	Butte
Main Hall Phase I & II	4,395,000	Dillon
Other capital grants and gifts	1,945,000	All
Total	<u>\$ 21,257,000</u>	

- Operating expenses increased by over \$19 million due primarily to increases in compensation and benefits, supplies and other services, and scholarships and fellowships, of \$9.2 million, \$2.8 million, and \$5.3 million, respectively. The increase in compensation and benefits was due primarily to a \$3.9 million increase in salaries paid to contract faculty and contract professionals and a \$3.8 million increase in employer contributions for employee benefits, including health insurance. The latter represents a 6.9% increase over FY 09. The 26.1% increase in scholarships and fellowships over the prior year is primarily due to an increase in enrollment and funding for financial aid.

**Events or developments which occurred during 2009 include:**

- Tuition and fees increased approximately \$3.2 million, with about 55% of the growth in revenue from higher enrollments and the remaining 45% increase in revenues from fees associated with higher tuition rates for out-of-state students.

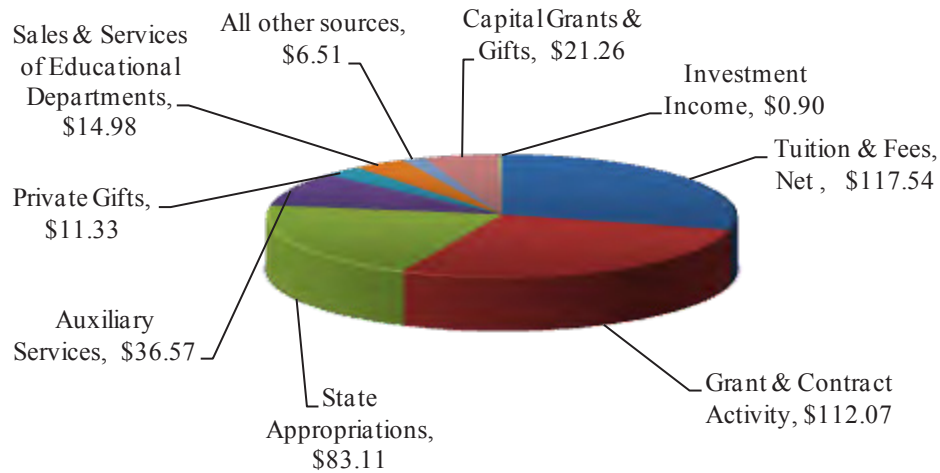
- Grants and contracts from federal, state and local funding sources, and facilities and administrative cost allowances, increased by about \$6.2 million. Funding for research from federal awards increased this fiscal year, accounting for \$4.2 million of the increase from FY08. State and local awards increased by almost 15%, or \$1.4 million, over the prior year.
- Capital grants and gifts amounted to \$33,320,000 during the year and were as follows:

<b>Project</b>	<b>Amount</b>	<b>Campus</b>
Phyllis J. Washington Education Center	\$ 8,969,000	Missoula
Law School Expansion	5,248,000	Missoula
Native American Studies Center	3,392,000	Missoula
Upgrade Steam Distribution System	1,396,000	Missoula
Equipment and art work gifts-in-kind	846,000	Missoula
Upgrade PARTV Lighting and Sound	507,000	Missoula
HVAC Projects	599,000	Missoula
MBMG/Petroleum Building	9,605,000	Butte
COT System Improvements	1,426,000	Butte
Other capital grants and gifts	1,332,000	All
Total	<u>\$ 33,320,000</u>	

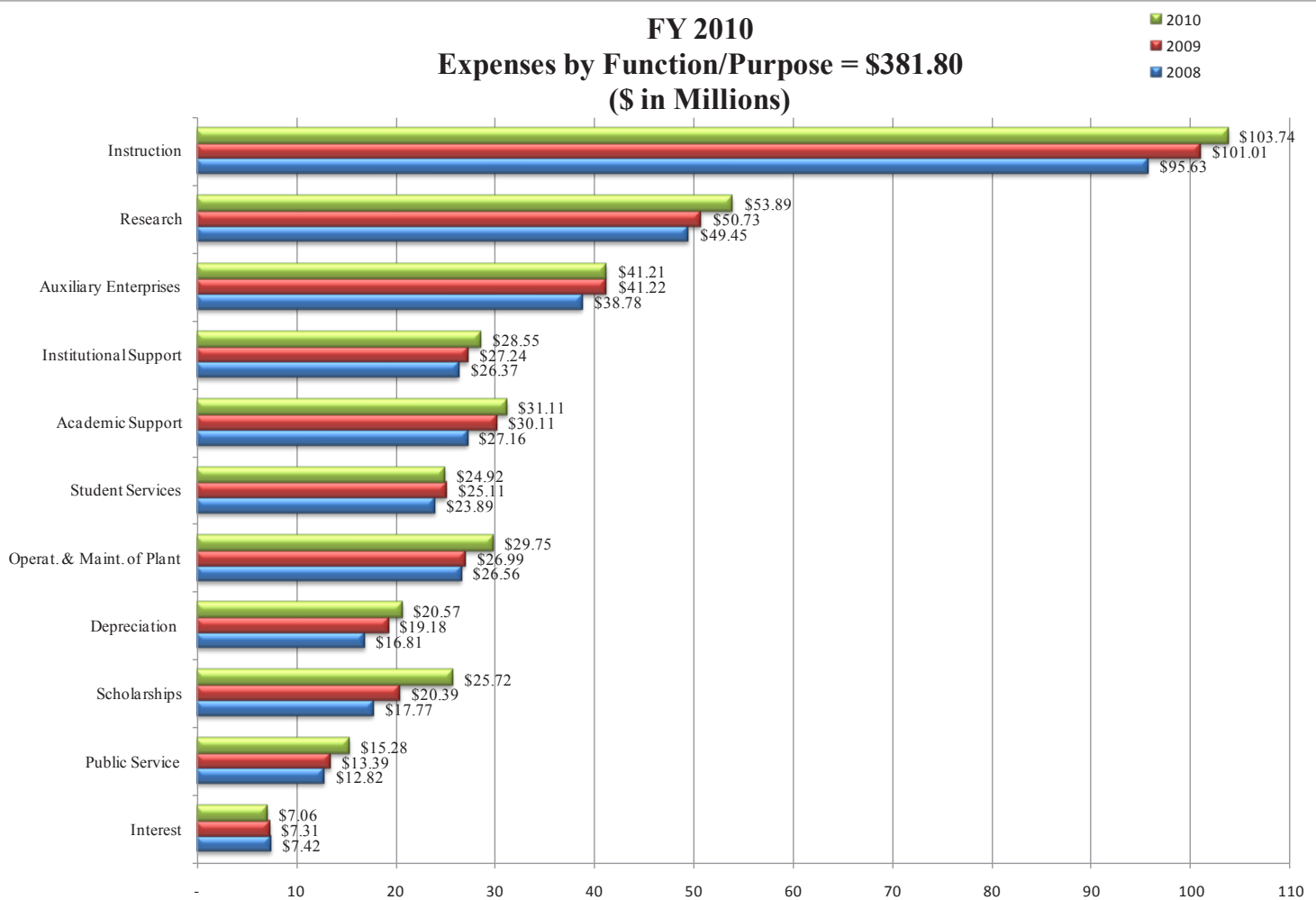
- Operating expenses increased by approximately \$20 million due primarily to increases in salaries and benefits, other operating expenses, scholarships, and depreciation costs, of \$12.8 million, \$2.0 million, \$2.6 million, and \$2.4 million, respectively. Salary increases in FY09 for classified staff and faculty were 3.6% and 3.0%, respectively. Employer contributions for employee benefits, including health insurance, increased by approximately 6.8% over FY 08, or an increase of \$3.5 million.



**FY 2010**  
**Revenues by Source = \$404.27 Million**  
**(\$ in Millions)**



**FY 2010**  
**Expenses by Function/Purpose = \$381.80**  
**(\$ in Millions)**





## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, its ability to generate future cash flows, and its needs for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

	For years ended June 30,		
	(stated in millions)		
	2010	2009	2008*
<b>CASH FLOW CATEGORY</b>			
Cash Provided by (Used for):			
Operating Activities	\$ (86.06)	\$ (78.46)	\$ (74.63)
Non-capital Financial Activities	123.27	111.70	105.19
Capital and Related Financial Activities	(29.28)	(33.63)	(45.13)
Investing Activities	(9.22)	(2.70)	(18.03)
Net (Decrease) Increase in Cash	(1.29)	(3.09)	(32.60)
Cash and Cash Equivalents, beginning of year	51.36	54.45	87.05
Cash and Cash Equivalents, end of year	\$ 50.07	\$ 51.36	\$ 54.45

\* Restated

Specific events or cash transactions during 2010 which were notable included:

- Cash flows from operating revenues were higher by over \$11.4 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees and auxiliary enterprise charges of \$8.3 million and \$1.9 million, respectively. This increase in cash flows was offset by an almost \$19.0 million increase in cash used for operating activities due principally to an increase in payments to employees for salaries and benefits of \$12.0 million and a \$5.3 million increase in amounts paid to students for scholarships and fellowships.
- Cash flows from non-capital financing activities increased by approximately \$11.6 million due largely to a \$3.1 million increase in state appropriation and \$8.7 million increase in the amount received from the federal government for Pell Grants.
- Overall, cash used in investing activities increased by over \$ 6.5 million, largely due to a payment of \$5.3 million to terminate the swaption agreement with the counterparty, Wachovia Bank, NA. During the year, the University purchased an additional \$5 million of U.S. government sponsored entities securities to enhance investment earnings. Even so, earnings received on investments declined by over \$800 thousand due primarily to continued low yields on interest bearing investments.
- Cash used by capital and related financing activities decreased by a net amount of \$4.3 million over the FY09 amount due primarily to the slower pace of new construction during FY10. The University used \$23.4 million in cash during FY10 mainly for capital construction projects and equipment purchases. The amount paid was offset by cash received from capital gifts of \$5.5 million to help fund these capital additions. Additional sources and uses of cash during the fiscal year included 2.0 million in proceeds from new debt issuances, and \$13.8 million of cash used for principal and interest payments on long term obligations.

Specific events or cash transactions during 2009 which were notable included:

- Cash flows from operating revenues were higher by over \$17.1 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees, and grants and contracts of \$6.7 million and \$9.6 million, respectively. This increase in cash flows was reduced by an increase in operating expenses of \$21.0 million due principally to an increase in payments for salaries and benefits of \$15.7 million.
- Cash flows from non-capital financing activities increased by approximately \$6.5 million due largely to an increase in state appropriation and federal financial aid grants and contracts revenue of \$6.4 million and \$2.4 million, respectively. These increases in cash flows were offset by a decrease in cash flows from private gifts, which decreased by \$2.3 million over FY08.
- Overall, cash used in investing activities decreased by over \$15.0 generally due to fewer purchases of fixed income investments during FY09 compared to the prior year. During the year, the University purchased an additional \$5.5 million of U.S. government agency securities to enhance investment earnings. Even so, earnings received on investments declined by over \$2.4 million due primarily to declining interest rates.
- Cash used by capital and related financing activities decreased by a net amount of \$11.5 million over the amount used in FY08. The University used \$37.7 million in cash during FY09 primarily for capital construction projects. The amount paid was offset by cash received from capital gifts of \$16.9 million to help fund these projects. \$13.7 million of cash was used for principal and interest payments on long term obligations.

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

The issues we view as significant pending economic or financial issues for the four campuses of the University are:

- As of June 30, 2010, there were a number of major construction projects that have been completed, under construction or being planned. The following is a summary of estimated costs, the projects and the status as of June 30, 2010.

<b>Project Name</b>	<b>Estimated Cost</b>	<b>Campus</b>	<b>Status</b>
Law School Addition	\$14.7M	Missoula	Completed
Interdisciplinary Science	\$13.8M	Missoula	Completed
Steam Line Replacement	\$459,000	Missoula	Completed
Education Addition	\$12M	Missoula	Completed
Mansfield Library HVAC	\$440,000	Missoula	Completed
Field Station Renovation	\$400,000	Missoula	Completed
Native American Center	\$8.5M	Missoula	Completed
Missoula COT	\$500,000	Missoula	Design Development (\$32.5m)
Gilkey Education Addition	\$9.0M	Missoula	Planning
Alumni/Foundation Building	TBD	Missoula	Planning
Art/Culture Museum	TBD	Missoula	Planning
Interdisciplinary Science - 2 <sup>nd</sup> Floor	\$7.9M	Missoula	Planning
Skaggs Basement completion	\$806,000	Missoula	Under Construction
Montana Northern Tier Network	\$1.5 M	Missoula	Under Construction
MBMG/Petroleum Building	\$17.4M	MT Tech	Completed

Project Name	Estimated Cost	Campus	Status
Health Science Building Renovation	\$2.8 M	MT Tech	Planning
Main Hall Renovation	\$10.6M	Western	Under construction
Helena Airport Campus Improvements	\$5.8 M	Helena COT	Under construction

These projects are being funded from a variety of sources including, private donations and state funding.

- The University intends to increase the retention rate by assuring that more of the entering freshmen have the support necessary for them to progress to graduation. In order to improve student success, a collaborative action plan for student retention 2009-2013 is underway. The target first-to-second year retention rate for the Mountain Campus by academic year 2012-2013 is 80% and the six-year graduation rate by 2014-2015 is 57%.

The approach taken in this plan recognizes that student success is multifaceted and begins well before a student arrives at college. Therefore, the retention plan is organized around six issues associated with student success:

1. Preparing K-12 student for college work;
2. Transitioning to college;
3. Integrating the early college curriculum;
4. Engaging students;
5. Strengthening student support; and
6. Emphasizing faculty and staff development.

The plan includes a discussion of each issue and includes an introduction followed by one or more specific actions, each with implementation steps. For the complete list of Actions, visit the Partnering for Student Success web site at [www.umt.edu/partnering](http://www.umt.edu/partnering).

- The number of new high school graduates in Montana is expected to decline by about 2% per year over the next 9 years. Despite the anticipated decline in high school enrollment, the University's enrollment (FTE) increased in FY10 by approximately 6.0% over FY09 enrollment (FTE) levels. The decline in high school graduates still presents a challenge for the University. The University has developed and is implementing strategies to improve access and enhance participation by new high school graduates from Montana to mitigate the impact of potential enrollment declines. While tuition at the University is in the moderate range when compared to other peer institutions, even a moderate level of tuition increase is not affordable for many Montana families. To improve access and hopefully increase the participation rate of a smaller pool of prospective in-state students, the University will continue to refine such programs as Montana Partnering for Affordable College Tuition (MPACT) to minimize debt burden as a barrier to participation. The University will also continue to encourage more need-based assistance at the State level to help increase the overall support provided to economically disadvantaged students.
- The next session of the Montana Legislature that begins in January 2011, will be facing a projected shortfall for the 2012-2013 biennium, making it difficult for the University to secure additional state funding. In addition, the Montana University System is facing possible elimination of one time only funding of \$17.6 million in federal stimulus funds distributed through the American Reinvestment and Recovery Act (ARRA) of 2009, and approved by the 2009 legislature. On a positive note, it appears the budget that will be submitted by the governor for the 2012-2013 biennium, will replace most of the ARRA one-time only funding. To address the economic uncertainty surrounding state support, the

University has established a management plan to further enhance revenues and reduce expenditures that should mitigate this potential loss of funding.

- The University received approval by the Board of Regents in October, 2010, to issue a total of approximately \$65 million of taxable and tax exempt refunding revenue bonds. The bonds were subsequently issued on December 6, 2010. The proceeds from the bond issuance will be used to refund Series E 1998 and Series F 1999 revenue bonds, and to pay bond issuance costs. Current historically low interest rates are expected to result in estimated net present values savings of approximately \$4.1 million to the University.
- The University must continue to seek creative ways to improve the efficiency and effectiveness of its operations through an on-going assessment of its business practices. It must pursue initiatives to generate additional financial support, reduce operating costs, while improving services to students.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Net Assets**  
**As of June 30, 2010 and 2009**

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	2010	2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 3)	\$ 49,842,261	\$ 51,174,362
Securities lending collateral	2,558,995	3,633,321
Investments	297,028	290,604
Accounts and grants receivable, net	5,663,620	3,800,099
Due from Federal government	9,735,464	8,837,399
Due from primary government	1,775,571	3,025,627
Due from other State of Montana component units	511,913	601,778
Loans to students, net	1,965,109	1,749,708
Inventories	1,797,757	1,923,739
Prepaid expenses and deferred charges	4,048,973	3,024,119
<b>Total current assets</b>	<b>\$ 78,196,691</b>	<b>\$ 78,060,756</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 232,389	\$ 189,816
Restricted investments	17,281,363	15,140,886
Other long term investments	40,053,156	34,170,005
Loans to students, net	9,861,815	10,695,763
Bond issuance costs	1,819,238	1,933,418
Capital assets, net	345,162,714	326,780,834
<b>Total Noncurrent Assets</b>	<b>\$ 414,410,675</b>	<b>\$ 388,910,722</b>
<b>Total Assets</b>	<b>\$ 492,607,366</b>	<b>\$ 466,971,478</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,692,044	\$ 23,786,303
Due to Federal government	145,328	145,301
Due to primary government	658,600	841,477
Due to other State of Montana component units	10,121	29,317
Securities lending liability	2,558,995	3,633,321
Student and other deposits	2,057,761	2,318,126
Deferred revenue	15,211,543	12,454,291
Accrued compensated absences	9,619,632	9,536,677
Current portion of long-term obligations	5,716,053	6,027,230
<b>Total Current Liabilities</b>	<b>\$ 58,670,077</b>	<b>\$ 58,772,043</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	\$ 14,037,141	\$ 13,558,279
Long term obligations	123,878,000	129,396,317
Advances from primary government	6,369,966	5,022,524
Other post employment benefits	23,946,353	15,015,611
Due to Federal Government	10,322,154	10,198,697
Derivative financial instrument	-	2,094,500
<b>Total Noncurrent Liabilities</b>	<b>\$ 178,553,614</b>	<b>\$ 175,285,928</b>
<b>Total Liabilities</b>	<b>\$ 237,223,691</b>	<b>\$ 234,057,971</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 214,307,313	\$ 192,230,174
Restricted for:		
Nonexpendable		
Endowments	15,939,206	13,923,653
Loans	1,987,931	1,950,538
Expendable		
Loans	1,989,280	2,068,506
Scholarships, research, instruction, and other	4,171,916	3,976,855
Unrestricted	16,988,029	18,763,781
<b>Total Net Assets</b>	<b>\$ 255,383,675</b>	<b>\$ 232,913,507</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 492,607,366</b>	<b>\$ 466,971,478</b>

The accompanying notes are an integral part of these financial statements.

# The University of Montana

## *A Component Unit of the State of Montana*

### University Component Units - Combined Statements of Financial Position

As of June 30 or December 31, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,727,679	\$ 4,696,442
Short-term investments	3,251,752	5,767,625
Accrued dividends and interest	154,964	222,875
Investments	155,925,237	140,128,973
Contributions receivable, net	10,671,047	14,227,577
Contracts and notes receivable, net	-	260,252
Student loans and other receivables	267,306	356,873
Depreciable assets, net of accumulated depreciation	4,115,664	4,244,701
Other assets	850,743	871,666
<b>Total Assets</b>	<b>\$ 180,964,392</b>	<b>\$ 170,776,984</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 263,046	\$ 354,170
Accrued expenses	93,055	145,735
Compensated absences	249,556	212,975
Note payable - bank	40,000	214,062
Liabilities to external beneficiaries	2,956,224	3,189,275
Custodial funds	16,460,149	16,373,016
Other liabilities	357,118	323,852
<b>Total Liabilities</b>	<b>\$ 20,419,148</b>	<b>\$ 20,813,085</b>
<b>NET ASSETS</b>		
Net assets - unrestricted	\$ 2,925,297	\$ (2,206,747)
Net assets - temporarily restricted	42,228,333	43,082,642
Net assets - permanently restricted	115,391,614	109,088,004
<b>Total Net Assets</b>	<b>\$ 160,545,244</b>	<b>\$ 149,963,899</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 180,964,392</b>	<b>\$ 170,776,984</b>

The accompanying notes are an integral part of these financial statements.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Revenues, Expenses**  
**and Changes in Net Assets**

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**For the Years Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances in 2010 and 2009 of \$25,559,412 and \$21,037,341, respectively)	\$ 117,543,233	\$ 107,522,641
Federal grants and contracts	56,121,947	54,114,370
State and local grants and contracts	10,701,636	11,168,831
Nongovernmental grants and contracts	8,174,005	8,039,772
Grant and contract facilities and administrative cost allowances	9,827,639	9,347,639
Sales and services of educational departments	14,984,682	15,561,907
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2010 and 2009 of \$1,828,732 and \$1,539,626, respectively)	13,438,896	13,083,303
Food services (net of scholarship allowances in 2010 and 2009 of \$1,828,732 and \$1,539,626, respectively)	11,521,033	11,740,318
Other auxiliary revenues	11,608,536	11,770,299
Interest earned on loans to students	55,168	44,091
Other operating revenues	4,956,488	4,169,781
<b>Total operating revenues</b>	<b>\$ 258,933,263</b>	<b>\$ 246,562,952</b>
<b>OPERATING EXPENSES:</b>		
Compensation and employee benefits	\$ 234,768,985	\$ 225,538,230
Other post employment benefits (note 18)	8,930,742	7,664,027
Other (note 25)	84,756,680	82,588,518
Scholarships and fellowships	25,717,106	20,394,534
Depreciation and amortization	20,569,295	19,181,605
<b>Total operating expenses</b>	<b>\$ 374,742,808</b>	<b>\$ 355,366,914</b>
<b>OPERATING LOSS</b>	<b>\$ (115,809,545)</b>	<b>\$ (108,803,962)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State appropriations	\$ 65,683,726	\$ 79,965,549
State appropriations - Federal ARRA	17,424,246	-
Federal financial aid grants and contracts	27,251,648	18,514,559
Land grant revenues	1,273,804	1,581,881
Private gifts	11,329,439	11,322,572
Investment income (loss)	905,164	(1,002,689)
Interest expense	(7,059,564)	(7,313,503)
<b>Net non-operating revenues</b>	<b>\$ 116,808,463</b>	<b>\$ 103,068,369</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES (EXPENSES)</b>	<b>\$ 998,918</b>	<b>\$ (5,735,593)</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Capital grants and gifts	\$ 21,257,412	\$ 33,320,652
Additions to permanent endowments	312,500	312,500
Gain (loss) on disposal of capital assets	(98,662)	(170,340)
<b>Total other revenues</b>	<b>\$ 21,471,250</b>	<b>\$ 33,462,812</b>
<b>Net increase in net assets</b>	<b>\$ 22,470,168</b>	<b>\$ 27,727,219</b>
<b>NET ASSETS:</b>		
Net assets - beginning of year	\$ 232,913,507	\$ 205,186,288
<b>Net assets - end of year</b>	<b>\$ 255,383,675</b>	<b>\$ 232,913,507</b>

The accompanying notes are an integral part of these financial statements.

# The University of Montana

## A Component Unit of the State of Montana

### University Component Units - Combined Statement of Activities

For the Years Ended June 30 or December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
<b>REVENUES:</b>				
Contributions	\$ 903,350	\$ 7,777,777	\$ 3,478,943	\$ 12,160,070
Interest and dividend income	584,291	3,100,524	-	3,684,815
Net realized and unrealized gain (loss) on investments	4,887,190	8,642,841	376,724	13,906,755
Administrative fees	440,664	-	-	440,664
Gain (loss) on sale of assets	94,606	-	-	94,606
Support received from university	408,612	69,500	-	478,112
Special events	432,971	157,278	-	590,249
Other income	15,491	1,748,358	14,149	1,777,998
Net assets released from restrictions	22,011,951	(22,011,951)	-	-
<b>Total revenues</b>	<b>\$ 29,779,126</b>	<b>\$ (515,673)</b>	<b>\$ 3,869,816</b>	<b>\$ 33,133,269</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 6,786,196	\$ -	\$ -	\$ 6,786,196
Capital expenses	5,387,374	-	-	5,387,374
Scholarships and awards	6,742,536	-	-	6,742,536
<b>Total program services</b>	<b>\$ 18,916,106</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,916,106</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 2,726,527	\$ -	\$ -	\$ 2,726,527
General and administrative	2,785,269	-	-	2,785,269
Investment management costs	156,840	-	-	156,840
Other miscellaneous	60,515	-	-	60,515
<b>Total operating expenses</b>	<b>\$ 5,729,151</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,729,151</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ 5,133,869</b>	<b>\$ (515,673)</b>	<b>\$ 3,869,816</b>	<b>\$ 8,488,012</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(6,044)	(80,465)	-	(86,509)
Reclassification of net assets	4,219	(258,171)	2,433,791	2,179,839
<b>Change in net assets</b>	<b>\$ 5,132,044</b>	<b>\$ (854,309)</b>	<b>\$ 6,303,607</b>	<b>\$ 10,581,342</b>
<b>Net assets, beginning of year</b>	<b>(2,206,747)</b>	<b>43,082,642</b>	<b>109,088,004</b>	<b>149,963,899</b>
<b>Net assets, end of year</b>	<b>\$ 2,925,297</b>	<b>\$ 42,228,333</b>	<b>\$ 115,391,611</b>	<b>\$ 160,545,241</b>

The accompanying notes are an integral part of these financial statements.



# The University of Montana

## A Component Unit of the State of Montana

### University Component Units - Combined Statement of Activities

For the Years Ended June 30 or December 31, 2010 and 2009

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	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
<b>REVENUES:</b>				
Contributions	\$ 1,137,907	\$ 14,520,693	\$ 3,998,044	\$ 19,656,644
Interest and dividend income	870,983	3,778,238	-	4,649,221
Net realized and unrealized gain (loss) on investments	(11,752,338)	(18,787,155)	(1,354,447)	(31,893,940)
Administrative fees	352,718	-	-	352,718
Loss on sale of assets	-	(8,791)	-	(8,791)
Support received from university	395,900	73,747	-	469,647
Special events	695,121	393,592	-	1,088,713
Other income	96,410	1,568,087	-	1,664,497
Net assets released from restrictions	36,124,527	(36,124,527)	-	-
<b>Total revenues</b>	<b>\$ 27,921,228</b>	<b>\$ (34,586,116)</b>	<b>\$ 2,643,597</b>	<b>\$ (4,021,291)</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 11,010,969	\$ -	\$ -	\$ 11,010,969
Capital expenses	16,824,802	-	-	16,824,802
Scholarships and awards	6,836,602	-	-	6,836,602
<b>Total program services</b>	<b>\$ 34,672,373</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,672,373</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 3,407,018	\$ -	\$ -	\$ 3,407,018
General and administrative	2,527,324	-	-	2,527,324
Investment management costs	236,599	-	-	236,599
Other miscellaneous	64,190	-	-	64,190
<b>Total operating expenses</b>	<b>\$ 6,235,131</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,235,131</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ (12,986,276)</b>	<b>\$ (34,586,116)</b>	<b>\$ 2,643,597</b>	<b>\$ (44,928,795)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(49,209)	(762,324)	-	(811,533)
Adjustments	-	309,189	(268,550)	40,639
<b>Change in net assets</b>	<b>\$ (13,035,485)</b>	<b>\$ (35,039,251)</b>	<b>\$ 2,375,047</b>	<b>\$ (45,699,689)</b>
<b>Net assets, beginning of year</b>	<b>10,828,738</b>	<b>78,121,893</b>	<b>106,712,957</b>	<b>195,663,588</b>
<b>Net assets, end of year</b>	<b>\$ (2,206,747)</b>	<b>\$ 43,082,642</b>	<b>\$ 109,088,004</b>	<b>\$ 149,963,899</b>

The accompanying notes are an integral part of these financial statements.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2010 and 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 117,703,850	\$ 109,437,718
Federal grants and contracts	55,683,075	54,793,217
State grants and contracts	10,618,403	11,351,676
Nongovernmental grants and contracts	8,094,958	8,139,210
Grant and contract facilities and administrative cost allowances	9,827,639	9,347,639
Sales and services of educational activities	15,236,334	15,354,999
Auxiliary enterprises charges	37,817,987	35,937,792
Interest earned on loans to students	169,205	129,054
Other operating receipts	5,128,533	4,431,756
Payments to employees for salaries and benefits	(235,949,256)	(223,948,815)
Operating expenses	(85,293,493)	(82,630,699)
Payments for scholarships and fellowships	(25,717,106)	(20,394,534)
Loans made to students	(1,691,877)	(2,201,951)
Loan payments received	2,310,424	1,795,338
<b>Net Cash Used by Operating Activities</b>	<b>\$ (86,061,324)</b>	<b>\$ (78,457,600)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 65,683,726	\$ 79,965,549
State appropriations - Federal ARRA	17,424,246	-
Land Grants	1,273,804	1,581,881
Federal financial aid grants and contracts	27,251,648	18,514,559
Private Gifts for other than capital purposes	11,329,437	11,322,572
Additions to permanent endowments	312,500	312,500
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$ 123,275,361</b>	<b>\$ 111,697,061</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (6,312,500)	\$ (10,312,500)
Proceeds from sales of investments	1,500,000	4,500,000
Cash equivalent investment reclassified to other long term investments	(853,122)	449,412
Payment to terminate forward SWAP agreement	(5,409,996)	-
Earnings received on investments	1,856,229	2,663,471
<b>Net Cash Used by Investing Activities</b>	<b>\$ (9,219,389)</b>	<b>\$ (2,699,617)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	\$ (23,377,029)	\$ (37,659,189)
Capital gifts	5,543,704	16,904,336
Proceeds from the sale of capital assets	40,904	16,270
Proceeds from the issuance of subordinated bonds payable	225,989	-
Proceeds from notes payable and advances from primary government	2,090,985	803,206
Principal paid on notes payable, advance from primary government, and capital leases	(1,189,794)	(752,983)
Principal paid on bonds payable	(5,725,000)	(5,590,000)
Interest paid on capital debt and leases	(6,893,935)	(7,347,657)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (29,284,176)</b>	<b>\$ (33,626,017)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>\$ (1,289,528)</b>	<b>\$ (3,086,173)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 51,364,178</b>	<b>\$ 54,450,351</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 50,074,650</b>	<b>\$ 51,364,178</b>

The accompanying notes are an integral part of these financial statements.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2010 and 2009**

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(Continued)

	2010	2009
<b>Reconciliation of Operating Loss to Net Cash Used By Operating Activities:</b>		
Operating loss	\$(115,809,545)	\$(108,803,962)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	20,569,295	19,181,605
Other amortization expense	114,180	322,332
Other post employment benefits	8,930,742	7,664,027
Changes in assets and liabilities:		
Accounts receivable	(1,421,665)	948,579
Loans to students	618,547	(406,613)
Inventories	125,983	(183,833)
Prepaid expenses and deferred charges	(1,024,855)	(282,740)
Accounts payable and accrued expenses	(1,346,167)	113,047
Deferred revenue	2,757,252	1,168,944
Student and other deposits	(260,365)	72,116
Due to federal government	123,457	37,132
Compensated absences	561,817	1,711,766
<b>Net Cash Used by Operating Activities</b>	<b>\$ (86,061,324)</b>	<b>\$ (78,457,600)</b>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions</b>		
Fixed assets acquired by incurring capital lease obligations	\$ 67,946	\$ 230,792
Increase (decrease) in fair value of investments recognized as a component of interest income	\$ 2,368,800	\$ (3,672,890)
Fixed assets acquired from Capital grants and donations	\$ 15,720,994	\$ 16,416,316
<b>Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets</b>		
Cash and cash equivalents classified as current assets	\$ 49,842,261	\$ 51,174,362
Cash and cash equivalents classified as noncurrent assets	232,389	189,816
<b>Total Cash and Cash Equivalents, End of Year</b>	<b>\$ 50,074,650</b>	<b>\$ 51,364,178</b>

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## THE UNIVERSITY OF MONTANA

### *A COMPONENT UNIT OF THE STATE OF MONTANA*

### FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

#### NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

##### ▪ ORGANIZATION

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 20,000 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

##### ▪ REPORTING ENTITY

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are The University of Montana – Missoula, Montana Tech of The University of Montana, which is located in Butte, The University of Montana – Western, which is located in Dillon, and The University of Montana - Helena College of Technology.

GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14” requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of one percent of consolidated net assets or one percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 22, “Accounting for Component Units.”

The University is considered a component unit of the State of Montana under GASB No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

##### ▪ BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments” and GASB Statement No. 35, “Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities,” the University is required to present a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. All significant intra-entity transactions have been eliminated upon consolidation.

## Notes to the Consolidated Financial Statements (continued)

Also, in accordance with GASB Statement No. 39, the combined statement of financial position and statement of activities of the four component units referred to above are separately presented following the respective University financial statements.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ▪ BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's consolidated financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University elected to not apply FASB pronouncements issued after the applicable date.

#### ▪ USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

#### ▪ CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in money market funds and in the Short Term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

#### ▪ INVESTMENTS

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

#### ▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

#### ▪ INVENTORIES

Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving-average method. Other inventories are valued using First In First Out (FIFO) or specific identification methods.

#### ▪ CASH AND SHORT-TERM INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the Consolidated Statement of Net Assets.

## Notes to the Consolidated Financial Statements (continued)

### ▪ CAPITAL ASSETS

Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The table below illustrates the capitalization thresholds.

<u>Capital Asset Category:</u>	<u>Capitalization Threshold Amount:</u>
Equipment	\$ 5,000
Buildings, Building Improvements, Land Improvements	\$ 25,000
Intangibles	\$ 100,000
Intangibles - Internally Generated	\$ 500,000
Infrastructure	\$ 500,000

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment - 3 to 10 years. Amortization is computed on a straight-line basis over the estimated 4 to 20 year useful lives of intangible assets. Intangible assets with indefinite useful lives are not amortized. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

### ▪ DEFERRED REVENUE

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

### ▪ COMPENSATED LEAVE

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

### ▪ NET ASSETS

The University's net assets are categorized as follows:

- **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable** - Net assets subject to externally imposed stipulations which require that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.
- **Restricted, expendable** - Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

## Notes to the Consolidated Financial Statements (continued)

### ▪ CLASSIFICATION OF REVENUES

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenue** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.
- **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations, investment income, and federal financial aid grants and contracts.

### ▪ USE OF RESTRICTED REVENUES

When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they have been expended.

### ▪ SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

## NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

### ▪ CASH DEPOSITS

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2010 and 2009 totaled \$36,006,877 and \$34,511,137, respectively.

### ▪ CASH EQUIVALENTS

Cash equivalents consist of \$556,480 of cash invested in a money market fund with First American Funds, and \$13,295,362 in the STIP with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2010 and 2009 were \$13,851,842 and \$16,650,067, respectively. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate instruments to provide diversification and a competitive rate of return. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar-dominated obligations of domestic and foreign banks, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.



## Notes to the Consolidated Financial Statements (continued)

### INVESTMENTS

Investments consisted of the following at June 30, 2010 and 2009:

Security Type	Fair Value		Effective Duration at June 30, 2010*	Credit Quality Rating at June 30, 2010***
	2010	2009		
U.S. Government Sponsored Entities	\$ 25,722,861	\$ 21,137,317	0.71	AAA
Short Term Investment Pool (STIP)****	853,123	1,416,862	Not applicable	NR
Trust Fund Investment Pool (TFIP)	15,488,769	13,496,421	4.33	NR
Montana Domestic Equity Pool (MDEP)	942,076	819,662	Not applicable	N/A
Foundation Pooled Investments	14,327,690	12,440,629	Not applicable	N/A
Certificates of Deposits	297,028	290,604	Not applicable	N/A
<b>Total investments</b>	<b>\$ 57,631,547</b>	<b>\$ 49,601,495</b>		
<b>Securities Lending Collateral Investment Pool</b>	<b>\$ 2,558,995</b>	<b>\$ 3,633,321</b>	0.05	NR

\*See Interest Rate Risk under the Investment Risks disclosure included in this note.

\*\*Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University's ownership represents less than 0.9% of the portfolio

\*\*\*NR indicates security investment unrated for credit quality type.

\*\*\*\*Structured Investment Vehicle investments in STIP portfolio reclassified from cash and cash equivalents.

Investments held by the University at June 30, 2010 and 2009 are described further in the paragraphs below.

#### U.S. Government Sponsored Entities

U.S. government sponsored entities securities are mortgage-backed securities purchased and administered by the Montana Board of Investments (MBOI), or bond trustee funds managed by U.S. Bank for the University. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. All of the securities were registered under the nominee's name (MBOI or U.S. Bank) on behalf of the University.

#### Montana Board of Investments Pools

The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2010 and 2009:

##### Montana Domestic Equity Pool (MDEP)

The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. ADR's are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. MDEP portfolio is limited to domestic stock or ADR investments.

##### Trust Funds Investment Pool (TFIP)

The TFIP portfolio includes corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.



## Notes to the Consolidated Financial Statements (continued)

### **The University Foundation Pools**

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations. The Foundations portfolio includes cash equivalents, fixed income and equity securities.

### **Certificates of deposit**

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The certificate of deposit, including interest earned, is reinvested upon maturity.

### **Securities lending transactions**

Under the provisions of state statutes, the Board of Investments, via a Securities Lending Authorization Agreement, has authorized the custodial bank, State Street Bank and Trust, to lend the Board of Investment's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board of Investments and the bank split the earnings on security lending activities. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2010 and 2009, the Board of Investments and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified-plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board of Investment's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board of Investments could not determine. At June 30, 2010 and 2009, the Board of Investments had no credit risk exposure to borrowers.

### **Investment risks**

Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures." Investments administered by the MBOI for the University are subject to their investment risk policies. The University does not have a formal investment policy for interest rate risk or credit risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFIP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Investment risks associated with the University's investments are described in the following paragraphs:

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate risk disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFIP investment policy does not formally address interest rate risk.

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method to disclose interest rate risk. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. It uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price.

#### **Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFIP fixed income instruments have credit risk as measured by major credit rating services. The First American money market fund has received AAA credit quality ratings from three NSRO's: Moody's; Standard and Poor's; and Fitch.

## Notes to the Consolidated Financial Statements (continued)

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, all STIP, MDEP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. MDEP investments in pooled investments are also excluded from this requirement. According to the TFIP Investment Policy, "with the exception of the U.S. government/agency securities, additional purchases will not be made in a security if the credit risk exceeds 2 percent of the portfolio at the time of purchase." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2010 and 2009, expressed as a percentage of total investments, was 44.64% and 43.09%, respectively.

### **Land grant earnings**

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,273,805 and \$1,581,881 for the years ended June 30, 2010 and 2009, respectively. These earnings are currently pledged to the Series C 1995, Series E 1998, Series F 1999, Series G 2002, Series I 2004, and Series J 2005 revenue bonds.

The University's land grant assets are not reflected in the consolidated financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

## **NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE**

Accounts Receivable consisted of the following at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Student tuition and fees	\$ 3,699,523	\$ 2,651,824
Auxiliary enterprises and other operating activities	2,169,843	1,852,333
Private grants and contracts	1,606,666	217,164
Other	129,076	134,655
Gross accounts and grants receivable	7,605,108	4,855,976
Less: allowance for doubtful accounts	1,941,488	1,055,877
<b>Net accounts and grants receivable</b>	<b>\$ 5,663,620</b>	<b>\$ 3,800,099</b>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 5 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2010 and 2009 are \$10,322,154 and \$10,198,697, respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses is shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the Consolidated Statement of Net Assets.

### NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Bookstore	\$ 673,353	\$ 626,580
Food services	145,876	145,659
Facilities services	764,692	744,606
Other	213,836	406,894
<b>Total inventories</b>	<b>\$ 1,797,757</b>	<b>\$ 1,923,739</b>

### NOTE 7 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Summer session	725,849	\$ 703,397
Travel advances	33,041	22,696
Other prepaid expenses	3,290,083	2,298,028
<b>Total prepaid expenses and other deferred charges</b>	<b>\$ 4,048,973</b>	<b>\$ 3,024,121</b>

## Notes to the Consolidated Financial Statements (continued)

## NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2010 and 2009, respectively.

**For the year ended June 30, 2010:**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers and Other Changes</b>	<b>Ending Balance</b>
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,532,929	\$ 172,479	\$ -	\$ 111,824	\$ 7,817,232
Capitalized collections	16,827,043	305,014	9,130	37,220	17,160,147
Construction in progress	62,085,805	26,030,342		(69,932,347)	18,183,800
	86,445,777	26,507,835	9,130	(69,783,303)	43,161,179
<b>Other capital assets:</b>					
Land improvements	12,883,611	-	-	-	12,883,611
Infrastructure	6,759,119	-	-	10,427	6,769,546
Buildings	244,070,118	818,405	-	68,063,390	312,951,913
Building improvements	153,319,817	-	-	4,043,477	157,363,294
Furniture and equipment	58,931,694	7,821,996	3,794,692	(16,900)	62,942,098
Library materials	53,567,118	1,576,751	178,366	(20,320)	54,945,183
Livestock	13,899	-	-	-	13,899
	529,545,376	10,217,152	3,973,058	72,080,074	607,869,544
<b>Less accumulated depreciation for:</b>					
Land improvements	9,215,411	313,938	-	-	9,529,349
Infrastructure	14,082	168,999	-	-	183,081
Buildings	105,625,139	5,597,395	-	-	111,222,534
Building improvements	92,014,955	8,086,887	-	-	100,101,842
Furniture and equipment	35,282,324	5,036,348	3,673,494	-	36,645,178
Library materials	47,466,776	1,218,083	161,846	-	48,523,013
Livestock	7,977	1,611	-	-	9,588
	289,626,664	20,423,261	3,835,340	-	306,214,585
<b>Other capital assets, net</b>	239,918,712	(10,206,109)	137,718	72,080,074	301,654,959
<b>Intangible assets</b>	416,345	76,265	-	(146,034)	346,576
<b>Total capital assets, net</b>	<b>\$ 326,780,834</b>	<b>\$ 16,377,991</b>	<b>\$ 146,848</b>	<b>\$ 2,150,737</b>	<b>\$ 345,162,714</b>
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 86,445,777	\$ 26,507,835	\$ 9,130	\$ (69,783,303)	\$ 43,161,179
Other capital and intangible assets	529,961,721	10,293,417	3,973,058	71,934,040	608,216,120
	616,407,498	36,801,252	3,982,188	2,150,737	651,377,299
Less: accumulated depreciation	289,626,664	20,423,261	3,835,340	-	306,214,585
<b>Total capital assets, net</b>	<b>\$ 326,780,834</b>	<b>\$ 16,377,991</b>	<b>\$ 146,848</b>	<b>\$ 2,150,737</b>	<b>\$ 345,162,714</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2009:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,532,929	\$ -	\$ -	\$ -	\$ 7,532,929
Capitalized collections	16,531,333	295,750	40	-	16,827,043
Construction in progress	47,187,108	45,584,126	-	(30,685,429)	62,085,805
	71,251,370	45,879,876	40	(30,685,429)	86,445,777
<b>Other capital assets:</b>					
Land improvements	12,753,185	-	-	130,426	12,883,611
Infrastructure	-	-	-	6,759,119	6,759,119
Buildings	237,941,795	-	-	6,128,323	244,070,118
Building improvements	134,422,443	-	986,151	19,883,525	153,319,817
Furniture and equipment	53,248,823	7,342,397	1,647,466	(12,060)	58,931,694
Library materials	52,213,861	1,395,432	42,175	-	53,567,118
Livestock	19,048	-	5,149	-	13,899
	490,599,155	8,737,829	2,680,941	32,889,333	529,545,376
<b>Less accumulated depreciation for:</b>					
Land improvements	8,899,016	316,395	-	-	9,215,411
Infrastructure	-	14,082	-	-	14,082
Buildings	100,522,566	5,102,573	-	-	105,625,139
Building improvements	85,496,021	7,293,138	774,204	-	92,014,955
Furniture and equipment	32,357,911	4,522,427	1,598,014	-	35,282,324
Library materials	45,678,701	1,793,334	5,259	-	47,466,776
Livestock	8,941	2,285	3,249	-	7,977
	272,963,156	19,044,234	2,380,726	-	289,626,664
<b>Other capital assets, net</b>	217,635,999	(10,306,405)	300,215	32,889,333	239,918,712
<b>Intangible assets</b>	299,124	258,510	3,918	(137,371)	416,345
<b>Total capital assets, net</b>	\$ 289,186,493	\$ 35,831,981	\$ 304,173	\$ 2,066,533	\$ 326,780,834
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 71,251,370	\$ 45,879,876	\$ 40	\$ (30,685,429)	\$ 86,445,777
Other capital and intangible assets	490,898,279	8,996,339	2,684,859	32,751,962	529,961,721
	562,149,649	54,876,215	2,684,899	2,066,533	616,407,498
Less: accumulated depreciation	272,963,156	19,044,234	2,380,726	-	289,626,664
<b>Total capital assets, net</b>	\$ 289,186,493	\$ 35,831,981	\$ 304,173	\$ 2,066,533	\$ 326,780,834

## NOTE 9 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2010 and 2009:

	2010	2009
Grant and contract revenue received in advance	\$ 4,826,922	\$ 4,981,455
Summer session payments received in advance	3,472,810	2,809,778
Other deferred revenues	6,911,811	4,663,058
<b>Total deferred revenue</b>	<b>\$ 15,211,543</b>	<b>\$ 12,454,291</b>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2010 and 2009:

	2010	2009
Compensation, benefits and related liabilities	\$ 16,514,647	\$ 17,593,429
Accrued interest expense	811,700	864,776
Accounts payable and other accrued liabilities	5,365,697	5,328,098
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 22,692,044</b>	<b>\$ 23,786,303</b>

### NOTE 11 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2010 and 2009, respectively:

#### For the year ended June 30, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 134,356,945	\$ 268,387	\$ 5,774,681	\$ 128,850,651	\$ 5,550,000
Subordinated bonds payable	-	225,988	-	225,988	-
Notes payable	660,916	-	400,977	259,939	47,486
Capital leases payable	405,687	67,946	216,158	257,475	118,567
	135,423,548	562,321	6,391,816	129,594,053	5,716,053
<b>Other long-term liabilities</b>					
Accrued compensated absences	23,094,956	9,774,019	9,212,202	23,656,773	9,619,632
Advances from primary government	5,552,970	2,023,040	572,658	7,003,352	633,386
Other Post Employment Benefits	15,015,611	8,930,742	-	23,946,353	-
Due to Federal Government	10,198,697	123,457	-	10,322,154	-
Derivative financial instrument	2,094,500	-	2,094,500	-	-
	55,956,734	20,851,258	11,879,360	64,928,632	10,253,018
<b>Total long-term liabilities</b>	<b>\$ 191,380,282</b>	<b>\$ 21,413,579</b>	<b>\$ 18,271,176</b>	<b>\$ 194,522,685</b>	<b>\$ 15,969,071</b>

#### For the year ended June 30, 2009:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 139,730,023	\$ 266,603	\$ 5,639,681	\$ 134,356,945	\$ 5,725,000
Notes payable	746,104	-	85,188	660,916	88,492
Capital leases payable	636,482	-	230,795	405,687	213,738
	141,112,609	266,603	5,955,664	135,423,548	6,027,230
<b>Other long-term liabilities</b>					
Accrued compensated absences	21,383,190	10,305,930	8,594,164	23,094,956	9,536,677
Advances from primary government	5,186,766	803,206	437,002	5,552,970	530,447
Other Post Employment Benefits	7,351,584	7,664,027	-	15,015,611	-
Due to Federal Government	10,161,565	37,132	-	10,198,697	-
Derivative financial instrument	2,094,500	-	-	2,094,500	-
	46,177,605	18,810,295	9,031,166	55,956,734	10,067,124
<b>Total long-term liabilities</b>	<b>\$ 187,290,214</b>	<b>\$ 19,076,898</b>	<b>\$ 14,986,830</b>	<b>\$ 191,380,282</b>	<b>\$ 16,094,354</b>

## Notes to the Consolidated Financial Statements (continued)

Long-term liabilities include:

- capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year;
- estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and
- other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

### **Interest Rate Exchange Agreement**

In August, 2005 the University entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. In exchange, the University received \$2,094,500 from the counterparty. A portion of the payment was consideration for the estimated present value of the fixed rate payable under the agreement upon execution of the swaption. The swaption gave the counterparty the right to require that the University execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, the University would expect to issue Series K 2010 taxable, variable rate bonds at the \$47,000,000 notional amount of the swap. The intention of the University in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

Under terms of the swap, the University would pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

On December 21, 2009, the University terminated the swaption with the counterparty due to projected unfavorable long-term interest rates and the current volatility in the financial markets. In order to liquidate the derivative financial instrument amounting to \$2,094,500 and terminate the swaption agreement in its entirety, the University paid the counterparty \$5,410,000 resulting in a net loss totaling \$3,315,500. The net loss is included in investment income reported at June 30, 2010.

### **Capital Leases**

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2010:

<b>Fiscal Year</b>	<b>Total</b>
2011	\$ 140,224
2012	90,404
2013	38,303
2014	12,935
2015	3,162
Minimum lease payments	\$ 285,028
Less: Amount representing interest	27,553
Present value of net minimum lease payments	\$ 257,475

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$922,238 with accumulated depreciation of \$619,604 as of June 30, 2010.

## **NOTE 12 – REVENUE BONDS**

Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.



## Notes to the Consolidated Financial Statements (continued)

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2010 and 2009, was \$168,411,780. The combined principal amount outstanding at June 30, 2010 and 2009 was \$130,639,997 and \$136,364,998, respectively.

### **Series C 1995**

On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest ranging from 3.80 percent to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds.

### **Series E 1998**

On June 26, 1998, The University of Montana issued \$10,670,000 of Series E 1998 Revenue Bonds, with interest ranging from 3.90 percent to 5.00 percent. The proceeds from the issue provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

### **Series F 1999**

On November 12, 1999, The University of Montana issued \$69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80 percent to 6.00 percent. The proceeds from the issue were used for the purpose of restructuring Series B, C and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average interest rates ranging from 4.30 percent to 6.65 percent. The Series B, C and D Facilities Improvements Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

Included in the Series F issuance was \$10,650,000 for construction of a new recreation facility at the University's Missoula campus. In September, 2005, the Series J 2005 Revenue Bond issuance advanced refunded the outstanding principal amount of this portion of the Series F 1999 issuance (see Series J 2005 below).

### **Series G 2002**

On October 18, 2002, The University of Montana issued \$18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

### **Series I 2004**

In April 2004, The University of Montana issued \$40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.75 percent. The proceeds from the issue paid and discharged \$30,540,000 of Series A 1993, Revenue Bonds. The issuance also provided \$7,000,000 towards future expansion of the Skaggs Building and \$2,950,000 for deferred maintenance on the Missoula campus.

### **Series J 2005**

On September 15, 2005, The University of Montana issued \$31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the issue, together with certain resources of the University, provided funds to pay and discharge a portion of the Series F Revenue Bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

The University of Montana recorded \$11,120,000 of the Series J 2005 Revenue Bonds to advance refund \$10,010,000 of outstanding Series F Facilities Improvement Revenue Bonds to reduce annual debt service payments. The interest rates on the advanced refunded revenue bonds ranged from 4.80 percent to 6.00 percent. The Series F Facilities Improvement Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.



## Notes to the Consolidated Financial Statements (continued)

### Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2010 and 2009, \$43,221,810 and \$46,579,503, respectively, of bonds outstanding were considered defeased.

### **Revenue Bonds Payable**

As of June 30, 2010 annual principal payments are as follows:

#### **Series C 1995 (Partial)**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	5.250%	\$ 525,000
		<u>\$ 525,000</u>

#### **Series E 1998**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	4.700%	\$ 460,000
2012	4.800%	470,000
2013	5.000%	500,000
2014	5.000%	565,000
2015	5.000%	390,000
2016-2020	5.000%	2,835,000
2021	5.000%	540,000
		<u>5,760,000</u>
Less unamortized discount:		14,805
		<u>\$ 5,745,195</u>

#### **Series F 1999**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	5.350%	\$ 345,000
2012	5.250%	915,000
2013	5.550%	954,998
2014	5.375%	965,000
2015	5.750%	1,225,000
2016-2020	5.750 - 6.000%	23,699,999
2021-2024	5.750%	28,430,000
		<u>56,534,997</u>
Less unamortized discount:		701,188
		<u>\$ 55,833,809</u>

## Notes to the Consolidated Financial Statements (continued)

**Series G 2002**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	3.300%	\$ 430,000
2012	3.400%	445,000
2013	3.600%	460,000
2014	3.750%	475,000
2015	3.900%	495,000
2016-2020	4.000-4.400%	2,790,000
2021-2025	4.500-4.650%	3,460,000
2026-2030	4.650%	4,360,000
2031-2033	4.650%	3,135,000
		<u>16,050,000</u>
Less unamortized discount:		36,696
		<u><u>\$ 16,013,304</u></u>

**Series I 2004**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	3.500%	\$ 2,800,000
2012	3.500-4.750%	2,905,000
2013	4.750%	3,030,000
2014	4.750%	3,180,000
2015	3.700-3.750%	3,325,000
2016-2020	3.750-4.375%	2,155,000
2021-2025	4.375-4.500%	6,790,000
2026-2030	4.500%	2,180,000
		<u>26,365,000</u>
Add net unamortized premium:		789,020
		<u><u>\$ 27,154,020</u></u>

**Series J 2005**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2011	4.500%	\$ 990,000
2012	4.250%	1,045,000
2013	4.500%	1,090,000
2014	4.000%	1,130,000
2015	4.500%	1,145,000
2016-2020	4.000-4.250%	6,285,000
2021-2025	4.000%	7,660,000
2026-2030	4.000-4.250%	6,060,000
		<u>25,405,000</u>
Add net unamortized premium:		40,377
		<u><u>\$ 25,445,377</u></u>

**Revenue Bond Payable Summary:**

Total revenue bonds outstanding	\$ 130,639,997
Add: Net unamortized premiums and discounts	76,708
Less: Unamortized loss on advance refunding	1,866,054
<b>Revenue bonds payable, net</b>	<u><u>\$ 128,850,651</u></u>

## Notes to the Consolidated Financial Statements (continued)

The scheduled maturities of the revenue bonds payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2011	\$ 5,550,000	\$ 6,411,002	\$ 11,961,002
2012	5,780,000	6,199,616	11,979,616
2013	6,034,998	5,938,844	11,973,842
2014	6,315,000	5,649,528	11,964,528
2015	6,580,000	5,362,133	11,942,133
2016-2020	37,764,999	21,842,783	59,607,782
2021-2025	46,880,000	10,695,513	57,575,513
2026-2030	12,600,000	2,383,162	14,983,162
2031-2033	3,135,000	296,206	3,431,206
<b>Total</b>	<b>\$ 130,639,997</b>	<b>\$ 64,778,787</b>	<b>\$ 195,418,784</b>

### NOTE 13 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized The University of Montana to complete the sale and delivery of bonds in the amount of \$750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are \$406,300 and \$333,700, respectively. Upon completion of the project and satisfaction of funding requirements, American Recovery and Reinvestment Act (ARRA) stimulus funds will pay off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, \$225,988 was disbursed from the Series I Bond committed amount and no funds were disbursed from the Series II Bond committed amount.

### NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2010 consisted of the following:

<b>Description</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Outstanding</b>	<b>Current Maturities</b>
Wells Fargo Bank	4.48%	1-May-15	259,939	47,486
<b>Total</b>			<b>\$ 259,939</b>	<b>\$ 47,486</b>

The scheduled maturities of the notes payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 47,486	\$ 11,119	\$ 58,605
2012	49,638	8,967	58,605
2013	51,886	6,719	58,605
2014	54,236	4,369	58,605
2015	56,693	1,912	58,605
<b>Total</b>	<b>\$ 259,939</b>	<b>\$ 33,086</b>	<b>\$ 293,025</b>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 15 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

### NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program offered through the Montana Board of Investments. The program lends money to state agencies, including the Montana University System, for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements.

The Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 51 years. The interest rates are variable and are adjusted annually.

Advances from Primary Government at June 30, 2010, are as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
Intercap – IT Wiring and Fiber	Variable	15-Aug-10	\$ 25,247
Intercap – Intercollegiate Athletics	Variable	15-Feb-11	1,664
Intercap – Public Safety	Variable	15-Aug-16	162,301
Intercap – Forestry	Variable	15-Aug-14	482,673
Intercap – Public Safety	Variable	15-Feb-13	202,719
Intercap – ASUM	Variable	15-Feb-13	69,163
Intercap – Microwave Network	Variable	15-Aug-11	15,912
Intercap – ASUM	Variable	15-Feb-13	189,712
Intercap – Intercollegiate Athletics	Variable	15-Feb-14	204,110
Intercap – PE Electrical Repair	Variable	15-Feb-19	133,040
Intercap – Facility Services	Variable	15-Aug-24	619,828
Intercap – Information Systems	Variable	15-Feb-17	1,000,000
Intercap – Facility Services	Variable	15-Feb-20	250,000
Intercap – ASUM	Variable	15-Feb-14	224,662
MSTA loan – Research Offices	Variable	30-Jun-61	3,422,321
			<u>7,003,352</u>
Less Current Maturities			633,386
<b>Total</b>			<u><u>\$ 6,369,966</u></u>

The scheduled maturities of the Intercap loans and MSTa loan are as follows:

Fiscal Year	Principal	Interest	Total Payment
2011	\$ 633,386	\$ 171,264	\$ 804,650
2012	620,103	153,886	773,989
2013	634,319	136,676	770,995
2014	505,127	119,949	625,076
2015	346,039	107,436	453,475
2016-2020	956,624	451,945	1,408,569
2021-2025	504,527	381,342	885,869
2026-2030	262,761	337,239	600,000
2031-2035	297,252	302,748	600,000
2036-2040	336,271	263,729	600,000
2041-2045	380,412	219,588	600,000
2046-2050	430,349	169,654	600,003
2051-2055	486,832	113,164	599,996
2056-2060	550,740	49,260	600,000
2061	58,610	1,387	59,997
<b>Total</b>	<u>\$ 7,003,352</u>	<u>\$ 2,979,267</u>	<u>\$ 9,982,619</u>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 17 – RETIREMENT PLANS

Full-time employees of the University are members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWPORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

#### **PERS, GWPORS and TRS**

PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plans are required and determined by state law. The contribution rates for 2010 and 2009 expressed as a percentage of covered payrolls were as follows:

	<b>2010</b>			<b>2009</b>		
	<b>Covered Payroll</b>	<b>Employee</b>	<b>Employer</b>	<b>Covered Payroll</b>	<b>Employee</b>	<b>Employer</b>
PERS	\$ 44,637,406	6.90%	7.19%	\$ 43,163,552	6.90%	7.04%
GWPORS	\$ 781,690	10.56%	9.00%	\$ 727,049	10.56%	9.00%
TRS	\$ 18,138,298	9.35%	9.90%	\$ 19,153,445	8.34%	9.47%

The amounts contributed to the plan during years ending June 30, 2010, 2009, and 2008, were equal to the required contribution each year. The amounts contributed were as follows:

	<b>Year ending June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b><u>PERS</u></b>			
Employer	\$ 3,207,986	\$ 3,036,969	\$ 2,899,156
Employee	\$ 3,079,336	\$ 2,980,089	\$ 2,843,455
<b><u>GWPORS</u></b>			
Employer	\$ 70,352	\$ 65,434	\$ 53,506
Employee	\$ 82,547	\$ 76,777	\$ 62,679
<b><u>TRS</u></b>			
Employer	\$ 1,795,830	\$ 1,813,832	\$ 1,816,799
Employee	\$ 1,696,659	\$ 1,598,098	\$ 1,821,825

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration  
P.O. Box 200131  
100 North Park, Suite 220  
Helena, Montana 59620-0131  
Phone: (406) 444-3154

Teachers' Retirement Division  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: (406) 444-3134

## Notes to the Consolidated Financial Statements (continued)

### ORP

ORP was established in 1988, and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by state law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP (TIAA-CREF) were as follows:

	<b>Year ending June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b><u>FACULTY</u></b>		
Covered Payroll	\$ 74,496,939	\$ 70,575,027
Employer Contributions	\$ 4,437,038	\$ 4,203,536
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	\$ 5,241,646	\$ 4,967,260
Percent of Covered Payroll	7.036%	7.038%
<b><u>STAFF</u></b>		
Covered Payroll	\$ 8,875,656	\$ 8,709,835
Employer Contributions	\$ 398,517	\$ 391,072
Percent of Covered Payroll	4.49%	4.49%
Employee Contributions	\$ 610,830	\$ 600,980
Percent of Covered Payroll	6.88%	6.90%

For the years ended June 30, 2010 and 2009, 4.72%, or \$3,516,792 and \$3,331,141, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.68% and 2.54%, or \$238,230 and \$221,667 respectively, was contributed to PERS from ORP staff employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF  
730 Third Avenue  
New York, New York 10017-3206  
Phone: 1-800-842-2733

### **NOTE 18 – OTHER POST EMPLOYMENT BENEFITS FOR HEALTH INSURANCE**

The University adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2008. The primary type of other post employment benefit (OPEB) addressed by GASB 45 is post employment health benefits. OPEBS have generally been accounted for on a pay-as-you-go basis and financial statements have often not recognized their financial effects until the benefits are paid. The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, similar to the accounting requirements under GASB 27 for government sponsored pension plans, where the cost of benefits to employees are recognized in periods when the related services are received by the employer.

## Notes to the Consolidated Financial Statements (continued)

**Plan Description.** The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Code Annotated, the MUSGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from \$433 to \$778 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from \$221 to \$528. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at <http://accounting.mt.gov/cafr/cafr.asp>.

**Annual OPEB Cost.** The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2010 and 2009, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

	2010	2009
Annual required contribution	\$ 8,292,578	\$ 7,351,584
Interest on net OPEB obligation	638,164	312,443
Annual OPEB cost (expense)	8,930,742	7,664,027
Contributions made	-	-
Increase in OPEB obligation	8,930,742	7,664,027
Net OPEB Obligation Beginning Balance	15,015,611	7,351,584
Net OPEB Obligation Ending Balance	<u>\$ 23,946,353</u>	<u>\$ 15,015,611</u>
Percentage of annual OPEB cost contributed	0.00%	0.00%

The actuarial determination was based on plan information as of July 1, 2009. The Montana University System actuarial valuation is required every two years. At that time, the number of active University participants in the MUS health insurance plan was 2,912. The total inactive (retiree and dependent) participants was 956. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$80,475,030, all of which was unfunded and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2010 and 2009 was \$24,121,154.52 and \$21,643,955, respectively, on annual covered payroll for the most recent actuarial valuation of \$167,395,949. The AAL as a percentage of annual covered payroll was 48.07%. The University does not contribute to the plan for its retirees. Currently, the University is not required to fund the ARC.

Required supplemental information immediately following the notes to the financial statements presents a schedule of funding status and the actuarial assumptions used for the actuarial valuations completed in fiscal 2007 and 2009.

**Actuarial Methods and Assumptions.** The actuarial funding method used to determine the cost of the MUSGIP was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.



## A-42 Notes to the Consolidated Financial Statements (continued)

The following actuarial assumptions were used in addition to marital status at retirement, mortality rates and retirement age:

<b>Actuarial Valuation Date:</b>	<b>July 1, 2009</b>
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participant Percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members) and includes, the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

### NOTE 19 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2010 is \$195,418,784 with annual debt service requirements ranging from \$12.4 million in 2011 to \$1.1 million in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2010 and 2009:

	<b>2010</b>		<b>2009</b>	
	<b>Revenues Pledged as Security for Debt</b>	<b>Net Similar Revenues</b>	<b>Revenues Pledged as Security for Debt</b>	<b>Net Similar Revenues</b>
Student fees	\$ 13,354,416	117,543,233	\$ 11,367,569	\$ 107,522,641
<u>Sales and services:</u>				
Events revenue	4,469,140		4,827,197	
Continuing education	2,513,064		1,003,927	
Residence life	575,842		773,351	
Student union facilities	532,585		526,094	
Other sources	4,221		887,584	
<i>Total sales and services</i>	<b>8,094,852</b>	<b>14,984,682</b>	<b>8,018,153</b>	<b>15,561,907</b>
Residence life	<b>13,491,257</b>	<b>13,438,896</b>	<b>13,083,133</b>	<b>13,083,303</b>
Food services	<b>11,512,829</b>	<b>11,521,033</b>	<b>11,609,220</b>	<b>11,740,318</b>
<u>Other auxiliary revenues:</u>				
Residence life	348,995		339,524	
Food services	728,494		724,215	
Student union facilities	231,195		935,830	
Student health services	877,570		938,081	
Parking	1,574,676		1,410,256	
Recreation facilities	853,715		899,452	
Bookstore	2,922,803		2,720,436	
Printing services	399,454		418,165	
Field house facilities	284,089		272,133	
Other sources	240,704		417,975	
<i>Total other auxiliary revenues</i>	<b>8,461,695</b>	<b>11,608,536</b>	<b>9,076,067</b>	<b>11,770,299</b>
Land grant revenue	<b>1,273,804</b>	<b>1,273,804</b>	<b>1,581,863</b>	<b>1,581,881</b>
Investment income	<b>470,226</b>	<b>905,164</b>	<b>1,548,185</b>	<b>(1,002,689)</b>
<b>Total pledged revenues</b>	<b>\$ 56,659,079</b>	<b>\$ 171,275,348</b>	<b>\$ 56,284,190</b>	<b>\$ 160,257,660</b>



**NOTE 20 – RISK MANAGEMENT**

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, and ARM 2-2-298, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for tort general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage through the state's brokers, Alliant Insurance Services and Willis, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature". Accordingly section, 2-9-305, MCA, requires that the state "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

**Buildings and contents** – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, the University has a \$2,500 per occurrence retention.

**General liability and tort claim coverage** – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the state's self-insurance program. Montana Codes Annotated (2-9-108, MCA) limits awards for damages against the state to \$750,000 per claim, \$1,500,000 per occurrence.

**Self-Funded Programs** – The University's health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that the premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, (for fiscal year 2004), the University's workers' compensation program became self-funded and is provided through membership in the MUS Self Insured Workers' Compensation Program. In fiscal year 2003 the University's workers' compensation coverage was provided for through participation in the state's Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Intermountain Claims, Inc.. The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

**NOTE 21 – COMMITMENTS AND CONTINGENCIES**

At June 30, 2010, the University had the following outstanding commitments under major capital and maintenance projects:

<b>Project</b>	<b>Budget Authorization</b>	<b>Total Expenditures through June 2010</b>	<b>Funding Source</b>
Health Sci Building Renovation	\$ 2,871,529	\$ 193,296	LRBP and Plant Funds
HPER Phase 2	3,000,000	69,905	Intercap Loan, Other Campus Funds
NRB Geothermal Phase 1	70,000	11,155	ARRA Funds
MG Building HVAC Upgrade	2,036,471	136,157	LRBP and Plant Funds
PE complex Electrical	407,318	366,942	Intercap Loan, Institutional
Block Hall HVAC Improvements	366,595	336,674	LRBP and Plant Funds
Main Hall Phase I	5,166,494	4,009,952	LRBP and Plant Funds
Main Hall Phase II	5,525,629	336,714	LRBP and Plant Funds
IT Woods Classrooms	434,873	270,439	LRBP and Plant Funds
Helena Airport Campus Improvements	5,832,013	363,363	LRBP and Plant Funds
ISB 2nd Floor	790,555	707,180	Series J Revenue Bonds
ASUM Bus Barn	450,000	332,128	Intercap Loan
Fine Arts Building Energy Upgrade	1,138,888	176,117	LRBP and Plant Funds
Music Building Energy Upgrade	757,731	206,167	LRBP and Plant Funds
Bio Research Energy Upgrade	207,985	21,105	LRBP and Plant Funds
Education Building Energy Upgrade	315,993	29,322	LRBP and Plant Funds
Skaggs Addition Basement	1,070,000	822,708	Grants, ARRA Funds
Law School Expansion	14,900,000	14,517,576	Donations,LRBP,Grant,Series J Revenue Bonds
Research Facility	13,724,510	13,643,739	2005 Series J Revenue Bonds
Native American Studies Center	8,503,330	7,909,686	Donations
Replace Elevators Aber/Jesse Halls	600,000	94,364	Plant
Maint. Shop Residence Life	500,000	31,539	Plant
ARRA Backflow	1,300,000	297,637	ARRA Funds
Northern Tier Network Pipeline	1,000,000	1,000,000	Intercap Loan
Steamline Auxiliary Upgrade	458,600	298,776	2005 Series J Revenue Bonds
Upgrade Boiler Controls	253,795	250,496	General Operating and Plant Funds
COT Futures Park	135,000	95,000	Research & Development
	<u>\$ 71,817,309</u>	<u>\$ 46,528,137</u>	

Operating leases – The University has commitments under non-cancelable operating leases as follows:

<b>Payable during the year ending June 30,</b>	<b>Total</b>
2011	\$ 359,847
2012	247,424
2013	230,013
2014	213,559
2015	43,729
	<u>\$ 1,094,572</u>

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

## Notes to the Consolidated Financial Statements (continued)

In the normal course of operations, the University receives grants and other forms of reimbursement from various federal and state agencies. These funds are subject to review and audit by the cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

### NOTE 22– RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. For the years ended June 30, 2010 and 2009, \$ 77,189 and \$92,464, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and the University.

### NOTE 23 – ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2010 and 2009, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$10,883,656 and \$23,646,222, respectively with The University of Montana Foundation (406-243-2593), \$3,800,498 and \$3,013,093, respectively, with the Montana Tech Foundation (406-496-4532); and \$381,329 and \$464,241 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,315,000 and \$1,469,315 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2010 and 2009, respectively. For the fiscal years ended June 30, 2010 and 2009, the University foundations also expended \$6.2 million and \$9.7 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal years ended June 30, 2010 and 2009, the University provided \$478,112 and \$469,647, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

Condensed financial information for each of the University's component units is presented below. The information for The University of Montana – Western Foundation is as of December 31, for the years presented. The financial information for all the other component units is as of June 30, for the years presented.

## Notes to the Consolidated Financial Statements (continued)

## STATEMENT OF FINANCIAL POSITION

June 30, 2010 and December 31, 2009

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$135,561,481	\$ 24,279,859	\$ 4,119,197	\$ 2,535,144	\$ (1,436,049)	\$165,059,632
Other receivables, net of allowances	10,479,229	427,163	-	31,961	-	10,938,353
Fixed assets, net of depreciation	3,949,828	163,573	-	2,263	-	4,115,664
Other assets	801,751	-	-	48,992	-	850,743
	<u>\$150,792,289</u>	<u>\$ 24,870,595</u>	<u>\$ 4,119,197</u>	<u>\$ 2,618,360</u>	<u>\$ (1,436,049)</u>	<u>\$180,964,392</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 248,314	\$ 92,001	\$ 7,899	\$ 7,887	\$ -	\$ 356,101
Note payable – other	-	-	40,000	357,118	-	397,118
Long-term liabilities – other	249,556	46,433	-	-	-	295,989
Liabilities to external beneficiaries	2,909,791	-	-	-	-	2,909,791
Custodial funds	17,896,198	-	-	-	(1,436,049)	16,460,149
	<u>21,303,859</u>	<u>138,434</u>	<u>47,899</u>	<u>365,005</u>	<u>(1,436,049)</u>	<u>20,419,148</u>
Net assets – unrestricted	(25,311)	1,755,621	261,639	933,348	-	2,925,297
Net assets – restricted	129,513,741	22,976,540	3,809,659	1,320,007	-	157,619,947
	<u>129,488,430</u>	<u>24,732,161</u>	<u>4,071,298</u>	<u>2,253,355</u>	<u>-</u>	<u>160,545,244</u>
	<u>\$150,792,289</u>	<u>\$ 24,870,595</u>	<u>\$ 4,119,197</u>	<u>\$ 2,618,360</u>	<u>\$ (1,436,049)</u>	<u>\$180,964,392</u>

\* For the year ended June 30, 2010.

\*\*For the year ended December 31, 2009.

## STATEMENT OF FINANCIAL POSITION

June 30, 2009 and December 31, 2008

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$123,323,992	\$ 22,868,364	\$ 3,744,437	\$ 2,264,982	\$ (1,385,860)	\$ 150,815,915
Other receivables, net of allowances	14,061,902	767,494	-	15,306	-	14,844,702
Fixed assets, net of depreciation	4,074,184	167,685	-	2,835	-	4,244,704
Other assets	803,912	4,111	-	63,643	-	871,666
	<u>\$142,263,990</u>	<u>\$ 23,807,654</u>	<u>\$ 3,744,437</u>	<u>\$ 2,346,766</u>	<u>\$ (1,385,860)</u>	<u>\$ 170,776,987</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 390,100	\$ 99,541	\$ 9,155	\$ 1,109	-	\$ 499,905
Note payable – other	123,140	50,922	40,000	-	-	214,062
Long-term liabilities – other	212,975	48,607	-	323,852	-	585,434
Liabilities to external beneficiaries	3,140,668	-	-	-	-	3,140,668
Custodial funds	17,758,876	-	-	-	(1,385,860)	16,373,016
	<u>21,625,759</u>	<u>199,070</u>	<u>49,155</u>	<u>324,961</u>	<u>(1,385,860)</u>	<u>20,813,085</u>
Net assets – unrestricted	(4,860,357)	1,575,338	256,665	821,610	-	(2,206,744)
Net assets – restricted	125,498,588	22,033,246	3,438,617	1,200,195	-	152,170,646
	<u>120,638,231</u>	<u>23,608,584</u>	<u>3,695,282</u>	<u>2,021,805</u>	<u>-</u>	<u>149,963,902</u>
	<u>\$142,263,990</u>	<u>\$ 23,807,654</u>	<u>\$ 3,744,437</u>	<u>\$ 2,346,766</u>	<u>\$ (1,385,860)</u>	<u>\$ 170,776,987</u>

\* For the year ended June 30, 2010.

\*\*For the year ended December 31, 2009.

## Notes to the Consolidated Financial Statements (continued)

## STATEMENT OF ACTIVITY

For the year ended June 30, 2010 and December 31, 2009

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
<b>REVENUES</b>					
Contributions	\$ 7,735,218	\$ 2,338,443	\$ 597,250	\$ 1,489,159	\$ 12,160,070
Investment income and unrealized gain(loss) on investments	14,151,658	2,920,702	408,240	110,970	17,591,570
Administrative fees	440,664	-	-	-	440,664
Contract for services	400,000	252,754	21,246	394,361	1,068,361
Gain on sale of assets	6,501	88,105	-	-	94,606
Other income	1,751,761	3,537	22,700	-	1,777,998
	<u>\$ 24,485,802</u>	<u>\$ 5,603,541</u>	<u>\$ 1,049,436</u>	<u>\$ 1,994,490</u>	<u>\$ 33,133,269</u>
<b>EXPENSES</b>					
Program services	\$ 13,419,279	\$ 3,800,498	\$ 381,329	\$ 1,315,000	\$ 18,916,106
Supporting services	4,309,654	679,466	292,091	447,940	5,729,151
	<u>\$ 17,728,933</u>	<u>\$ 4,479,964</u>	<u>\$ 673,420</u>	<u>\$ 1,762,940</u>	<u>\$ 24,645,257</u>
Change in net assets before non-operating items	<u>\$ 6,756,869</u>	<u>\$ 1,123,577</u>	<u>\$ 376,016</u>	<u>\$ 231,550</u>	<u>\$ 8,488,012</u>
<b>NON-OPERATING EXPENSES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(86,509)	-	-	-	(86,509)
Reclassification of Net Assets	2,179,839	-	-	-	2,179,839
Change in net assets	<u>8,850,199</u>	<u>1,123,577</u>	<u>376,016</u>	<u>231,550</u>	<u>10,581,342</u>
Net assets, beginning of fiscal year	<u>\$ 120,638,231</u>	<u>\$ 23,608,584</u>	<u>\$ 3,695,282</u>	<u>\$ 2,021,805</u>	<u>\$ 149,963,902</u>
Net assets, end of fiscal year	<u>\$ 129,488,430</u>	<u>\$ 24,732,161</u>	<u>\$ 4,071,298</u>	<u>\$ 2,253,355</u>	<u>\$ 160,545,244</u>

\* For the year ended June 30, 2010.

\*\*For the year ended December 31, 2009.

## STATEMENT OF ACTIVITY

For the year ended June 30, 2009 and December 31, 2008

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
<b>REVENUES</b>					
Contributions	\$ 15,153,691	\$ 2,624,128	\$ 501,148	\$ 1,377,677	\$ 19,656,644
Investment income and unrealized gain(loss) on investments	(22,206,249)	(4,035,398)	(840,133)	(162,939)	(27,244,719)
Administrative fees	352,718	-	-	-	352,718
Contract for services	380,000	349,492	217,158	611,710	1,558,360
Loss on sale of assets	-	(8,791)	-	-	(8,791)
Other income	1,628,277	13,120	23,100	-	1,664,497
	<u>\$ (4,691,563)</u>	<u>\$ (1,057,449)</u>	<u>\$ (98,727)</u>	<u>\$ 1,826,448</u>	<u>\$ (4,021,291)</u>
<b>EXPENSES</b>					
Program services	\$ 29,725,724	\$ 3,013,093	\$ 464,241	\$ 1,469,315	\$ 34,672,373
Supporting services	4,684,239	844,310	234,274	472,305	6,235,128
	<u>\$ 34,409,963</u>	<u>\$ 3,857,403</u>	<u>\$ 698,515</u>	<u>\$ 1,941,620</u>	<u>\$ 40,907,501</u>
Change in net assets before non-operating items	<u>\$ (39,101,526)</u>	<u>\$ (4,914,852)</u>	<u>\$ (797,242)</u>	<u>\$ (115,172)</u>	<u>\$ (44,928,792)</u>
<b>NON-OPERATING EXPENSES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(770,894)	-	-	-	(770,894)
Change in net assets	<u>(39,872,420)</u>	<u>(4,914,852)</u>	<u>(797,242)</u>	<u>(115,172)</u>	<u>(45,699,686)</u>
Net assets, beginning of fiscal year	<u>\$ 160,510,651</u>	<u>\$ 28,523,436</u>	<u>\$ 4,492,524</u>	<u>\$ 2,136,977</u>	<u>\$ 195,663,588</u>
Net assets, end of fiscal year	<u>\$ 120,638,231</u>	<u>\$ 23,608,584</u>	<u>\$ 3,695,282</u>	<u>\$ 2,021,805</u>	<u>\$ 149,963,902</u>

\* For the year ended June 30, 2009.

\*\*For the year ended December 31, 2008.

## Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for The University of Montana – Western Foundation are as of December 31, 2009 and 2008. The financial information for all the other component units is as of June 30, 2010 and 2009.

	<b>Fair Market Value</b>	
	<b>2010</b>	<b>2009</b>
<b>Investments held by component units:</b>		
Stocks and bonds	\$131,018,056	\$123,107,202
Money market and certificates of	1,148,447	2,463,096
Hedge funds	14,641,981	11,304,624
Alternative investments	10,210,100	6,494,369
Real property	472,546	913,028
Other	1,685,859	1,614,279
	<u>\$159,176,989</u>	<u>\$145,896,598</u>

### NOTE 24 – SUBSEQUENT EVENT

On October 21, 2010, the Board of Regents of Higher Education for the State of Montana authorized the University to issue a total of approximately \$65 million of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The bonds were subsequently issued on December 6, 2010. The bond proceeds from the sale of the Series K 2010 bonds will provide funds to defease all or a portion of the University's outstanding Series E 1998 Bonds and Series F 1999 Bonds, and pay costs associated with the bond issuance.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 25 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2010, were as follows:

Functional Classification:	Natural Classification							
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	\$ 92,394,274	\$ 3,147,907	\$ 7,703,591	\$ 33,643	\$ 461,651	\$ -	\$ -	\$ 103,741,066
Research	37,030,043	1,169,854	15,364,382	69,757	252,024	-	-	53,886,060
Public service	10,119,838	392,953	4,645,342	2,649	118,879	-	-	15,279,661
Academic support	22,264,237	808,036	7,767,933	-	266,312	-	-	31,106,518
Student services	16,087,896	780,597	7,609,740	5,505	440,627	-	-	24,924,365
Institutional support	20,423,415	838,691	6,611,024	-	682,415	-	-	28,555,545
Operation and maintenance of plant	13,003,663	656,080	9,441,367	6,387,271	262,170	-	-	29,750,551
Scholarships and fellowships	-	-	-	-	-	25,717,106	-	25,717,106
Auxiliary enterprises	23,445,619	1,136,623	12,558,115	3,821,354	250,930	-	-	41,212,641
Depreciation	-	-	-	-	-	-	20,569,295	20,569,295
	<u>\$ 234,768,985</u>	<u>\$ 8,930,741</u>	<u>\$ 71,701,494</u>	<u>\$ 10,320,179</u>	<u>\$ 2,735,008</u>	<u>\$ 25,717,106</u>	<u>\$ 20,569,295</u>	<u>\$ 374,742,808</u>

\*Other Post Employment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2009, were as follows:

Functional Classification:	Natural Classification							
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	\$ 89,559,483	\$ 2,690,685	\$ 8,142,855	\$ 26,804	\$ 577,138	\$ -	\$ -	\$ 100,996,965
Research	34,907,304	1,019,315	14,134,914	83,221	582,413	-	-	50,727,167
Public service	8,750,387	294,637	4,229,443	70	120,152	-	-	13,394,689
Academic support	21,588,083	689,593	7,511,093	79	326,185	-	-	30,115,033
Student services	15,677,394	668,938	8,208,493	7,614	549,399	-	-	25,111,838
Institutional support	19,455,830	731,588	6,176,036	-	876,680	-	-	27,240,134
Operation and maintenance of plant	12,344,181	563,632	7,581,083	6,402,293	95,491	-	-	26,986,680
Scholarships and fellowships	-	-	-	-	-	20,394,534	-	20,394,534
Auxiliary enterprises	23,255,568	1,005,639	12,853,236	3,786,906	316,920	-	-	41,218,269
Depreciation	-	-	-	-	-	-	19,181,605	19,181,605
	<u>\$ 225,538,230</u>	<u>\$ 7,664,027</u>	<u>\$ 68,837,153</u>	<u>\$ 10,306,987</u>	<u>\$ 3,444,378</u>	<u>\$ 20,394,534</u>	<u>\$ 19,181,605</u>	<u>\$ 355,366,914</u>

# The University of Montana

## Required Supplementary Information

### Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance

The funded status of the plan as of the actuarial valuations dated July 1, 2007 and 2009 were as follows:

	<b>2007</b>	<b>2009</b>
Actuarial accrued liability (AAL)	\$ 78,187,418	\$ 80,475,030
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 78,187,418	\$ 80,475,030
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 122,541,536	\$ 167,395,949
UAAL as a percentage of covered payroll	63.80%	48.07%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial assumptions included in the valuations, in addition to marital status at retirement, mortality rates and retirement age, were as follows:

<b>Actuarial Valuation Date:</b>	<b>July 1, 2007</b>	<b>July 1, 2009</b>
Interest/Discount rate	4.25%	4.25%
Projected payroll increases	3.00%	2.50%
Participant Percentage:		
Future retirees assumed to elect coverage at retirement	45.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	59.00%	60.00%



# The University of Montana

## Supplemental Information - All Campuses

(Unaudited)

<u>DESCRIPTION</u>	<u>Fall 2009</u>	<u>Fall 2008</u>	<u>Fall 2007</u>	<u>Fall 2006</u>	<u>Fall 2005</u>	<u>Fall 2004</u>
Enrollment (Headcount) <sup>1</sup>	20,248	18,979	18,417	18,383	17,919	17,796
	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>
Enrollment (FTE) <sup>2</sup>						
Colleges of Technology	3,018	2,560	2,358	2,121	2,055	1,881
Undergraduate	13,181	12,565	12,223	12,167	11,985	12,026
Graduate	1,900	1,805	1,837	1,777	1,747	1,765
Enrollment (FTE) <sup>2</sup>						
In-State students	14,090	13,066	12,557	12,354	12,215	12,225
Out-of-State students	2,958	2,905	2,927	2,732	2,710	2,675
Western Undergraduate Exchange	1,051	959	934	979	862	772
	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>
Employees (FTE) - All Funds <sup>3</sup>						
Contract Faculty	1,073	1,044	1,033	1,003	993	985
Contract Admin & Professional	515	502	470	455	386	401
Classified	1,319	1,311	1,317	1,294	1,283	1,275
GTA/GRA	178	174	164	170	173	178
Part Time and Other	558	530	553	399	403	385
	<u>School Year Ended</u>					
	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008<sup>5</sup></u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>
Degrees Granted <sup>4</sup>						
Certificate	149	234	189	163	102	76
Associate	522	455	429	481	478	467
Undergraduate	2,292	2,177	2,151	2,074	2,034	2,192
Graduate	723	751	741	705	711	698

<sup>1</sup> Source: MUS Data Warehouse

<sup>2</sup> Source: Internal management reports 2000-2001, CHE Operating Reports 2002-2010

<sup>3</sup> Source: CHE Operating Reports 2000-2010

<sup>4</sup> Source: IPEDS Completion Reports, Fall 2000-2005, internal management reports

<sup>5</sup> Restated



THE UNIVERSITY OF  
MONTANA

UNIVERSITY RESPONSE





**Office of the President**  
The University of Montana  
Missoula, MT 59812-3324

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December 28, 2010

Ms. Tori Hunthausen  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

**RECEIVED**

**Dec 28 2010**

**LEGISLATIVE AUDIT DIV.**

Dear Ms. Hunthausen:

On behalf of The University of Montana community, I want to extend our appreciation to you and the Legislative Audit staff for your work on The University of Montana's Financial Audit for Fiscal Year ending June 30, 2010. We have found this process helpful and work by the Legislative Auditor as a professional and cooperative process. The resultant audit report provides the University an independent review and presentation of our financial position.

Again, thank you to you and your staff for your assistance and thoughtful efforts.

Sincerely,

Royce C. Engstrom  
President

RCE/kc  
Englet040

c: S. Stearns, Commissioner of Higher Education